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Volume IV, No. 2

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TABLE OF CONTENTS

The "Dualistic Theory" of Underdeveloped Areas	Benjamin Higgins	99
Economic Development in Indonesia: Some Social and Cultural Impediments	Justus M. van der Kroef	116
Religious Belief and Economic Behavior in a Central Javanese Town: Some Preliminary Considerations	Clifford Geertz	134
Small Scale Industry and Economic Development In Indonesia	K. Nagaraja Rao	159
Financing Economic Development in Indonesia	Douglas S. Paauw	171
The Trade and Payments Agreements Program of Indonesia, 1950-1955	William C. Hollinger	186
<u>A Review of Approaches to Economic Development</u>	John Buttrick	200

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THE "DUALISTIC THEORY" OF UNDERDEVELOPED AREAS*

The economist who is trying to provide a systematic analysis of the development of underdeveloped areas has two choices before him. He may integrate orthodox economic and social theory, as it exists in advanced western countries, and choose assumptions appropriate to the institutional framework of underdeveloped areas; or he may endeavor to develop a distinctive theory which is applicable only in underdeveloped areas. Perhaps the leading exponent of the latter approach is Dr. J. H. Boeke, who has recently restated and elaborated his special theory of underdeveloped areas.¹ Dr. Boeke's "dualistic theory" is of special interest and importance because of his years of reflection as Professor of Eastern Economics at Leiden University. While his theory is based largely on Indonesian experience, Boeke feels that it has general application. The reason for his choice of title for his recent book, which is mainly an amalgamation of two earlier studies of the Indonesian economy, Dr. Boeke says, is his

...conviction that the economic problems of Indonesia are typical for a large and important part of the world, that therefore an analysis of these problems may be illuminating for many similar countries and that the experience gained in several decades of economic colonial policy may serve as a guide to the host of inexperienced planners for the well-being of that part of the world that has not yet conformed to their western ideals.²

An analysis based largely on Indonesian experience may prove to have less general application than Boeke believes; meanwhile, as one of the few attempts at a general theory of economic and social development of underdeveloped areas, Boeke's theory enjoys considerable vogue. Also, to the degree that Boeke reflects attitudes of the former Netherlands East Indies Government, his ideas are of considerable historical interest.³

* This article is a somewhat revised and condensed version of the one which appeared under the same title in Ekonomi dan Keuangan Indonesia, February 1955.

- (1) J. H. Boeke, Economics and Economic Policy of Dual Societies, New York, 1953 (hereinafter referred to as Boeke, Economics...); "Three Forms of Disintegration in Dual Societies", lecture given in the course on Cooperative Education of the International Labour Office, Asian Cooperative Field Mission, October 1953, and published in Indonesië, Vol. VII, No. 4 (April 1954) (hereinafter referred to as Boeke, "Three Forms..."; and "Western Influence on the Growth of Eastern Population", Economia Internazionale, Vol. VII, No. 2, May 1954 (hereinafter referred to as Boeke, "Western Influence...").

The author wishes to thank Dr. Boeke for his extensive comments on an earlier draft of this article, which have helped the author to sharpen both his presentation of Dr. Boeke's theory and his criticism of it. I also wish to thank the Center for International Studies, Indonesian Field Team for checking my impressions against their much more intensive sociological, social psychological, and anthropological studies. Obviously, however, no member of the Field Team--and still less Dr. Boeke--can be held responsible for any of the views set forth in this paper.

- (2) Boeke, Economics..., op. cit., p. vi.
- (3) For evidence that the whole structure of government in the Netherlands Indies rested on a theory of "dualism", see Rupert Emerson, Malaysia, New York, 1937, esp. pp. 420-425.

The Theory

Dr. Boeke gives the following formal definition of a dual society:

Social dualism is the clashing of an imported social system with an indigenous social system of another style. Most frequently the imported social system is high capitalism. But it may be socialism or communism just as well, or a blending of them.⁴

This dualism, he says, is a "form of disintegration, [which] came into existence with the appearance of capitalism in pre-capitalistic countries."⁵ The invading force is capitalism, but it is not colonialism. Colonialism is a "dust-bin term"; both it and "the antithesis native-foreign" are "objectionable", and

...it is to be hoped that with the obtaining of national sovereignty the true character of economic dualism will be acknowledged sincerely and logically, for its negation is decidedly not to the interest of the small man.⁶

On the other hand, dualism is for Boeke virtually synonymous with "Eastern". Dualism arises from a clash between "East" and "West" in the sense in which these terms are used in Rudyard Kipling's famous phrase, "East is East and West is West and never the twain shall meet". While cautioning that "the only true and really cogent antithesis is represented by the words capitalistic and non- or pre-capitalistic", Dr. Boeke contends that "we may use the term 'eastern economics' instead of 'dualistic economics' because both terms cover the same situation, to wit, the situation that is typical for the countries in South and East Asia."⁷

The pre-capitalistic or eastern sector of a dualistic economy has several characteristic features. One of these is "limited needs", in sharp contrast with the "unlimited needs" of a western society. Accordingly,

...anyone expecting western reactions will meet with frequent surprises. When the price of coconut is high, the chances are that less of the commodities will be offered for sale; when wages are raised the manager of the estate risks that less work will be done; if three acres are enough to supply the needs of the household a cultivator will not till six; when rubber prices fall the owner of a grove may decide to tap more intensively, whereas high prices may mean that he leaves a larger or smaller portion of tapable trees untapped.⁸

In short, in the familiar terminology of western economics, the pre-capitalistic sector of the eastern economy, in contrast to the "homogeneous" western economy, is characterized by backward sloping supply curves of effort and risk-taking.

Such needs as there are in eastern societies are social rather than economic. It is what the community thinks of commodities that gives them their value.

If the Madurese values his bull ten times as much as his cow, this is not because the former is ten times as useful to him in his business as the latter, but because the bull increases his prestige at the bull races.⁹

(4) Boeke, Economics..., op. cit., p. 4.

(7) Ibid., p. 12.

(5) Boeke, "Three Forms...", op. cit., p. 282.

(8) Ibid., p. 40.

(6) Boeke, Economics..., op. cit., p. 20.

(9) Ibid., pp. 37-38.

A closely related feature, in Boeke's view, is the almost complete absence of profit-seeking in an eastern society. Speculative profits are attractive to the Oriental, but "these profits lack every element of that regularity and continuity which characterizes the idea of income."¹⁰ Similarly, there is no professional trading in the eastern village community. Eastern industry is characterized by "aversion to capital" in the sense of "conscious dislike of investing capital and of the risks attending this," only slight interest in finish and accuracy, lack of business qualities, failure to come up to even the minimum requirements of standard and sample, lack of elasticity of supply, lack of organization and of discipline, and corrective local specialization. All this is said to be in sharp contrast to the industry of the westernized, capitalistic sector of underdeveloped areas. The Oriental is, unfortunately, totally lacking in organizing power where modern western enterprises are concerned. Where western industry is dominated by common sense reason, eastern society is molded by "fatalism and resignation."¹¹

Because of these great differences between eastern and western economies, western economic theory is totally inapplicable to underdeveloped areas. "We shall do well," Dr. Boeke sternly admonishes, "not to try to transplant the tender, delicate hot-house plants of western theory to tropical soil, where an early death awaits them."¹² Western economic theory, he says, is based on unlimited wants, a money economy, and many-sided corporative organizations, none of which exists in the rural sector of eastern societies. Western theory is designed to explain capitalistic society, whereas the eastern village is pre-capitalistic. He is particularly critical of any effort to explain the allocation of resources or the distribution of income in terms of marginal productivity theory, mainly because of the great immobility of resources in an eastern society.

Policy Implications

This picture of the nature of underdeveloped areas leads Professor Boeke to pessimistic views on the chances for success of recent efforts to develop them, economically and socially, along western lines. At best, these efforts are likely to be abortive; at worst, they may hasten retrogression and decay. Perhaps Boeke's strongest statement of this conclusion is his most recent. We cannot reverse the process of social disintegration in dual societies, he says, "because it is not possible to transform the operating forces into the opposite of what they are. The contrast is too all-inclusive, it goes too deep. We shall have to accept dualism as an irretrievable fact."¹³ The acceptance of social and economic dualism leads to two policy conclusions: "First, that as a rule one policy for the whole country is not possible, and second that what is beneficial for one section of society may be harmful for the other."¹⁴

Even in agriculture, efforts to bring about improvement in methods may cause retrogression instead, especially if "mental attitudes" of farmers are not changed in the process. For "capitalism can only be realized by capitalist minded individuals", and if the foreign experts "try to attain their objectives

(10) Boeke, Economics..., p. 41

(11) Ibid., pp. 101-102 and 106.

(12) Ibid., p. 143.

(13) Boeke, "Three Forms...", op. cit., p. 289.

(14) Ibid., p. 289.

merely by technical, outside means...only one result can be expected: an accelerated increase in population which...makes the problem more insoluble than ever." Worse, if the innovation is a technical or economic failure, "the result will be increased indebtedness". Meanwhile, the culture of the village community is "perfectly adapted to the environment"; and the methods of eastern agriculture "could hardly be improved upon".¹⁵ The existing agricultural system is a result of adaptation, and is not at a low stage of development.

Dr. Boeke doubts whether the Javanese cultivator can turn to new crops. Nor does he think that Indonesians could

assume part of the work of the western enterprises, the agricultural part, so as to allow entrepreneurs to devote their energies exclusively to the industrial aspect of the business. This would mean that what is now one united concern, one business, what is being nursed and developed in serried areas, uniformly raised, scientifically guarded and improved, qualified on the basis of the knowledge of market requirements, promoted by means of cheap and plentiful capital, brought into immediate contact with industrial processing, would begin to disintegrate and retrogress at all these points. The present organization of these enterprises is the product of a long history, and handing over cultivation of these products to the petty native peasant would mean a return to an arrangement in the main abandoned as inefficient.¹⁶

As for industry, "Eastern business will always present a very different appearance from western, even in cases where the two are concerned in the production of the same commodity." Technological progress along western lines is impossible. "There is no question of the eastern producer adapting himself to the western example technologically, economically or socially." Indeed, if eastern enterprises endeavor to imitate western methods, they will merely lose their competitive qualities.¹⁷ Efforts to industrialize Indonesia, along western mechanized lines, have left Indonesia "further from self-sufficiency than it was a century ago", while its national small industry "has for the most part been ruined in the course of modern development".¹⁸

Similarly, Dr. Boeke does not believe that there is anything government can do about unemployment of underdeveloped areas. He distinguishes five kinds of unemployment: seasonal, casual, unemployment of regular laborers, unemployment of urban white collar workers, and unemployment among Eurasians (he does not specifically mention disguised unemployment). All five kinds of unemployment, Dr. Boeke says, "are beyond the reach of government help," because dealing with them "would entail a financial burden far beyond the government's means."¹⁹

- (15) Boeke, *Economics...*, *op. cit.*, p. 31; and "Three Forms...", *op. cit.*, p. 292. These remarks apply to Indonesia. "Eastern agriculture in some other countries provides plenty of room for improvement, and even in Java agricultural experts can suggest ways of raising productivity significantly."
- (16) Boeke, *Economics...*, *op. cit.*, pp. 193-194.
- (17) *Ibid.*, p. 103. See also p. 217, where Boeke argues that "native industry", because it has "practically no organization", is "without capital, ignorant of the market", and "technically helpless", cannot compete with western enterprise, and will suffer trying to do so.
- (18) *Ibid.*, p. 227.
- (19) *Ibid.*, p. 318-319.

Economic development of any kind is hampered by limited wants and still more limited purchasing power. Either an increase in supply of foodstuffs, or industrialization, will lead to a glutting of markets, a fall in prices, and havoc. Even the transmigration programme, on which the Indonesian government has placed so much hope for economic development, is of little use, according to Boeke. It only transplants Java's population problem to the Outer Islands, while Java itself is worse off than before.²⁰

Any effort on the part of the West to improve these harassing conditions by educating Indonesian leaders in the western tradition can only hasten decay.

In my opinion, here the western influence tends to divert the attention of the leading classes from their own society to the new and promising western power. The masses, however, unable to follow their leaders on their western way, thus lose the dynamic, developing element in their culture. Eastern culture in this way comes to a standstill, and stagnation means decline.²¹

Again, "the penetration of the West...has deprived the villages...of their leaders in a social and cultural respect."²²

In the field of international relations as well, the outlook for the underdeveloped area is dismal. For

after the Second World War disintegrating forces have asserted themselves and binding forces have grown weaker in the international field as well. I am alluding to the formation of new sovereign nations and to the decline of the uniting influence of colonial and imperial powers on all the dual countries.²³

Dr. Boeke has little to suggest by way of positive policy, as a substitute for the "technical- and capital-assistance" approach which he deplures. However, his idea seems to be that any industrialization or agricultural improvement must be "a slow process", small-scale, and adapted to a "dualistic" framework. "The conclusion to which these arguments about industrialization as well as about agricultural reforms lead us can be no other than the one already expressed, to wit, that social-economic dualism, far from being considered as a passing phase the termination of which may be hastened considerably by a western policy of integration, must be accepted as a permanent characteristic of a large number of important countries, permanent at least within a measurable distance of time." We must have a "dichotomy of social-economic policy, which is fundamentally different according to the social groups at which it is aimed."²⁴

What this policy means in concrete terms is not spelled out. "I will expose no plans," says Dr. Boeke, except to stress the need for "village restoration". This restoration will not take place through a revival of the rural gentry, but must "follow more democratic ways". New leaders must spring from "the small folk themselves", and must be accompanied by "a strong feeling of local social responsibility in the people themselves." Just how all this is

(20) Boeke, *Economics...*, *op. cit.*, p. 187, 182-183.

(21) *Ibid.*, p. 39.

(22) Boeke, "Western Influence...", *op. cit.*, p. 367.

(23) Boeke, "Three Forms...", *op. cit.*, p. 294.

(24) *Ibid.*, p. 293.

to be accomplished Professor Boeke does not say; but the sphere of action must be small, the time slow, and the goal won by "faith, charity, and patience, angelic patience."²⁵

The Facts

In examining this discouraging analysis of the prospects for underdeveloped areas, I wish first to record certain differences between Dr. Boeke's impressions of eastern society and my own. Let us return to Dr. Boeke's emphasis on "limited wants", or backward-sloping supply curves of effort and risk-taking. There is an all-important difference between saying that the people of underdeveloped countries really cannot envisage a standard of living higher than their own, or that they could think of no satisfactory way of spending increases in income, and saying that they see no simple way of raising their standard of living by their own efforts or enterprise. The last of these statements is to some extent true, and the reasons for it receive attention below. The first two are definitely not true, especially in Indonesia. There, both the marginal propensity to consume and the marginal propensity to import are high. Wants of the villagers, far from being limited, are so many and varied that any "windfall", occurring initially through increased exports, is quickly spent on imported semi-luxuries unless rigorous import and exchange controls are applied to prevent it. Far up the great rivers of Kalimantan (Borneo), hundreds of miles into the jungle, good rubber prices result in a spate of orders for bicycles, mattresses, watches, fountain pens, and the like. Sampans in the remotest canals are loaded with Australian tinned milk and American tinned soup. The same is true of the other islands as well. Indeed, the limitless wants of the Indonesian people confront the authorities concerned with import and foreign exchange controls with their major problem. To turn these wants into a wellspring of economic growth, the people must be shown the connection between satisfaction of their wants and their own willingness to work, save, and take risks--a difficult but not impossible task.²⁶

Dr. Boeke himself recognizes the high income elasticity of demand for semi-luxuries, largely imported.²⁷ Why, then, does he attach such importance to "limited needs", contending that in "diametric opposition" to western economies with their "limitless needs", "the economic motive does not work continuously" in eastern society, calling for a distinct "theory of values"?²⁸

Having seen enterprises efficiently organized and operated by Orientals, along western lines, I do not share Dr. Boeke's pessimism regarding possibilities of technological progress in eastern industry. Dr. Boeke's characterization of the Oriental casual worker as "unorganized, passive, silent, casual"--a kind of behavior which, he says, "is characteristic of the Easterner"--seems inconsistent with the growing strength of organized labor in Indonesia, India, and elsewhere.²⁹

(25) Boeke, "Western Influence...", op. cit., pp. 366-369.

(26) This point is made, in different terms, by Professor D. H. Burger, "Boeke's Dualisme," Indonesië, Vol. VII, No. 3 (January 1954).

(27) Boeke, Economics..., op. cit., p. 249.

(28) Ibid., p. 39.

(29) Ibid., p. 145. At one point (p. 144), Dr. Boeke seems even to deny the possibility of growth of labor organizations. Because of the nature of agricultural enterprises, which are scattered and more likely to support each other in their common interests than to compete, every effort at

Similarly, it is hard to reconcile Dr. Boeke's isolation of "repugnance to alienation from the village community" with the continued growth of the large cities in Indonesia. This movement can no longer be explained in terms of rural insecurity; nor are employment opportunities better in the cities. It would seem that the life of the larger cities, with their cinemas, cafes, shops, libraries, and sports events, has proved attractive to villagers who get a taste of it; the result is congestion, inadequate community facilities, and unemployment in the larger cities. It is also hard to reconcile Dr. Boeke's argument that native agriculture cannot compete with western, with the postwar growth of smallholders rubber exports, which has recently constituted the larger share of rubber exports of Indonesia, despite an increase in total exports.

Again, Dr. Boeke's insistence on the difficulty of persuading Javanese people to leave their villages, in order to move to the Outer Islands, conflicts with the existence, in the files of the Department of Transmigration in Indonesia, of two million applications for removal under the transmigration schemes.

At times, Dr. Boeke's facts seem to conflict with each other. For example, at one point he lays great stress on the immobility of labor in native agriculture. Yet, at another point he states that wages cannot be raised by industrialization, because

as soon as, for instance, a new mill is opened or an irrigation work is constructed, from all sides wage labourers, colonists, traders, and partisans rush in, if need be from hundreds of miles away, to seize this opportunity to supplement their scanty means of living.³⁰

The latter of these two contrasting pictures seems more accurate to the present writer. In periods of rising prices, plantation owners complain of the difficulty of maintaining a labor force, in the light of an infinitesimal increase in wage rates on neighboring plantations or in neighboring factories. The drain of trained Chinese workers from the bauxite and tin mines--communist and non-communist alike--in response to more attractive wage offers from Red China, has become a major problem. Even landowners in Java sometimes sharecrop their farms and move their families many miles away, in response to higher wage offers. Obviously, in eastern society as in our own, other factors than income incentive influence the degree of mobility of particular individuals and groups; but I see no evidence that Oriental labor is intrinsically more immobile than western labor.

Again, at one point Dr. Boeke explains the impossibility of significant expansion of smallholder agriculture.³¹ Yet earlier, he complains of the Netherlands East Indies Government's difficulty in forcing smallholders to grow less rubber during the 1930's; imposition of what "penal" export duties resulted instead in an increase in productivity of native smallholders.³² This experience seems to suggest that expansion of smallholders' agriculture is a matter of finding the right incentive system.

organization could be nullified, Dr. Boeke argues. The fact is, however, that it is precisely in plantation agriculture that the Indonesian trade union movement is strongest.

(30) Boeke, *Economics...*, *op. cit.*, p. 177.

(31) *Ibid.*, pp. 216-217.

(32) *Ibid.*, pp. 124-126.

Such discrepancies between Dr. Boeke's description of eastern economies and the impressions of other observers illustrates the need for much more extensive and intensive fact-gathering, before generalizations can be made, especially as a basis for policy.

Is "Dualism" an Eastern Phenomenon?

Some degree of "dualism" certainly exists in underdeveloped areas. In most of them, it is possible to discern two major sectors; one which is largely native, in which levels of technique, and levels of economic and social welfare are relatively low; and another, usually under western leadership and influence, in which techniques are advanced, and average levels of economic and social welfare are relatively high.

There is then no denying the existence of this "dualism", although it is perhaps less sharp than Dr. Boeke suggests, seems to be becoming still less sharp and does not prove by its mere existence that it is immutable. But is this dualism a special feature of "eastern" countries? Merely to raise the question is to answer it. Dr. Boeke himself suggests at one point that dualism exists in other underdeveloped areas, including those of Latin America and Africa as well as those of the Orient. But there is perhaps no country in which "dualism" is more striking than in Italy, with its industrialized and progressive North, and its agricultural and stagnant South. Indeed, one could go further, and argue that some degree of dualism exists in virtually every economy. Even the most advanced countries, such as Canada and the United States, have areas in which techniques lag behind those of the most advanced sectors, and in which standards of economic and social welfare are correspondingly low. Notable examples are the rural sections of the Province of Quebec, rural areas in the southern hills and in northern New England hills, and Mexican communities in Texas, Arizona, and New Mexico. Most economies can be divided into distinct regions, with different degrees of technological advance.

Dr. Boeke does say that the term "dual society" should be reserved for "societies showing a distinct cleavage between two cynchronic and full grown social styles."³³ But does this qualification help? What is "full grown"? Where does one find a "full grown" capitalism side-by-side with a "full grown" pre-capitalistic society, with nothing in between? And, if such countries could be found, would it be helpful to classify all other countries as "homogeneous"? It seems more realistic to rank countries on a more or less continuous scale of homogeneity, perhaps with Dr. Boeke's native Holland at the upper end, as a country exhibiting an extraordinary degree of homogeneity.

Many of the specific characteristics of the "eastern" society described by Dr. Boeke, seem to the present writer to be attributable to western societies as well. The preference for speculative profit over long-term investment in productive enterprise appears wherever chronic inflation exists or threatens. Such attitudes prevail in Greece today, in Germany, France, Austria, and Italy after World War I. And surely the "conscious dislike of investing capital and of the risk attending this" prevails everywhere. A famous American financier has said, "nothing is so shy as a million dollars"; western economist have recently developed a whole field of analysis relating to "liquidity-preference" and "safety-preference", to take account of the reluctance of investors the world over to accept risk or illiquidity, and their strong preference for keeping their capital in safe and liquid form. Only the prospect of large and fairly safe profits has called forth the large volume of investment that has resulted in the rapid development of the now advanced countries. Growth breeds growth, stagnation breeds stagnation, in any economy. As for valuing goods according to prestige conferred, rather than direct use-value, what western society is

(33) Boeke, Economics..., op. cit., p. 3.

free from such behavior? Veblen made such behavior a vital aspect of his analysis of American society, and gave it his famous label, "conspicuous consumption".

Similarly, Dr. Boeke's distinction between eastern societies, especially Indonesia, where "export is the great objective", and western countries, where export "is only the means which makes import possible"--a distinction which Dr. Boeke regards of "essential importance"--is hard to understand in view of the popularity of protectionist policies in most countries in recent decades. Dr. Boeke also speaks of absenteeism of regular laborers as "undoubtedly in part an expression of the very general pre-capitalistic phenomenon of desiring a large number of holidays." But employers in the United States or Canada in the early part of World War II, or in Australia since the War, would be quick to deny that absenteeism is no problem in the capitalist world. The same is true of the "backward-sloping supply curve of effort", which was all too evident in Australia during the post-war period, and which began to appear in certain industries such as coal mining, in the United States in recent years. It is the present writer's contention that this "backward-sloping supply curve" is not exclusively a feature of eastern societies, but appears in any society which stagnates (or slows down) long enough to weaken the "demonstration effect", provided by people moving from one standard of living to another, as a result of their own extra effort, directed specifically towards earning additional income.

Again, Dr. Boeke's contrast between colonization in the Western World, where "people on their own initiative and at their own cost leave their country for abroad to better their living conditions" and eastern migration policy which "means propagating migration from overcrowded regions with financial help from the government" seems to overlook the very large role that private and public assistance played in the migration from Europe to the New World. Dr. Boeke also remarks that in Indonesia "when recruiting new colonists, the attraction exerted by the large, well-known colonies was needed, where relations and friends from the village awaited the newcomer." Surely immigrants always needed some pressures at home to make them move, and surely migrants always preferred to move to places where they could join their own kin; hence the concentration of Scandinavians and Germans in the States of Wisconsin and Minnesota, and of Dutchmen in New York. Also, internal migration in western countries as well as eastern may require active government intervention. Consider, for example, the efforts of the British Government to relocate industry, of the Australian Government to decentralize industry, and of the Quebec government to colonize its northern territories.

Similarly, Boeke's contrast between urban growth in western and in eastern societies does not ring true in the ears of the present writer. In dual societies, Boeke contends, urban development proceeds at the cost of rural life. In East and West alike, so far as one can judge from available data, urbanization is accompanied by an absolute growth, but relative decline, in the rural population; although in countries where the birth rate has not fallen, the relative fall in rural population and income may not stick.³⁴ If Dr. Boeke means that urbanization has yet to bring true economic progress in eastern countries, he is of course right; but that is because urbanization in the East has not brought the same degree of industrialization, nor the same decline in birth rates. In short, "urban growth" has not been "urban development".

In sum, it seems to the present writer that Dr. Boeke exaggerates the degree of "dualism" in such countries as Indonesia; the contrast between the advanced and underdeveloped sectors appears to me to be less sharp than Boeke

(34) See below, the section on the "population multiplier".

contends, and to be diminishing.³⁵ Nor can I see that such dualism is specifically eastern. Contrasts between the levels of technique and of economic and social welfare, and even contrasts in economic and social behavior, can be found among different sectors of many western economies. To my mind, it is Dr. Boeke's "homogeneous" societies that are rare.

Is Western Social Theory Applicable to Underdeveloped Areas?

If dualism is not an essentially eastern phenomenon, its existence is not in itself a barrier to application of western social theory to underdeveloped areas. Sectoral differences are a challenge to economic theorists, but one that can be met.

The question of usefulness of western theory is an important one; clearly, the possibility of effective prescriptions for economic and social policy in underdeveloped areas by western social scientists, depends on the degree to which the tools of analysis, in the use of which the western social scientist is an expert, can be applied in underdeveloped countries.

When Dr. Boeke speaks of "the tender, delicate hothouse plants of western theory", it is not certain whether he has tried contemporary theory in the eastern context and found it wanting, or whether he found the economics he learned forty years ago inapplicable, and decided then that orthodox western theory was useless in the East, and that a new specialized theory must be developed. Clearly, the weight to be attached to Dr. Boeke's dismissal of all economic theory but his own depends very much on which of these alternatives is the true one.

On the evidence provided by Dr. Boeke himself, it would appear that the "western theory" he has in mind is indeed the neo-classical theory of a generation ago. All of his examples of "inapplicability" of western theory refer to conflicts between his observations and simple neo-classical theory of value and distribution, with pure competition and "normal" schedules. He does not refer to the work of contemporary western economists. Most economists would contend that the economic theory of Alfred Marshall was of only limited applicability in the Western World as well; and the inability to derive policy conclusions for underdeveloped areas on the basis of neo-classical theory alone hardly constitutes a proof that contemporary western economic theory is useless in the East. In his attack on "western wage theory", Dr. Boeke quotes only Von Wieser. Indeed, he refers to no non-Dutch economist more recent than Schumpeter, and even in Schumpeter's case his references are to his theory of economic development, which first appeared before World War I. Boeke's failure to consider recent theories of economic development, which the present writer has found very helpful in explaining the development patterns of both advanced and underdeveloped countries, is particularly unfortunate. If Dr. Boeke has dismissed these theories after serious trial, one would like to know why. He gives only one hint: in arguing that in "eastern" economics "the function of the entrepreneur must be added to the usual theoretical triad of production factors: nature, labour, and capital", he suggests that he considers only "static" theory could be considered in the context of the pre-capitalistic sector of "eastern" economies--the entrepreneurial function dominates western theory of economic dynamics. But the fact that these sectors are "static" in the sense that per capita incomes are not rising, and that technological progress, resource discovery, and capital accumulation proceed at slow rates, of course does not mean that "statics" is the appropriate branch of economic theory to apply. Such economies bear little resemblance to the theoretical abstraction known as a "static" economy, and an economy which is not growing is still a special case of economic dynamics.

(35) Boeke's failure to recognize the dynamic elements in Indonesian life is also stressed by Professor Burger, op. cit.

In order to demonstrate that western theory is not so handicapped in explaining phenomena in dualistic economies as Dr. Boeke suggests, let us examine two of his examples. Marginal productivity theory, Dr. Boeke contends, provides no explanation of differences in rents charged for land leased to Westerners in Indonesia:

There is no free competition: as land renter the western enterprise has almost always the monopoly; the product undergoes a number of more or less drastic industrial processes before it appears on the market; much capital is involved therein. Under these circumstances, it is impossible to compute what proportion of the value of the product is to be credited to the land. That we are here dealing with a dualistic phenomenon is sure. But this dualism must not be ascribed to a two-fold marginal productivity which varies according to whether land is in the hands of a western enterprise or of a native owner.

Instead, the rent depends on "the scarcity of money in the region concerned".³⁶

This case is not unfamiliar in orthodox western economic analysis. There is not free competition for land in Indonesia and more than one product is involved in estimating the value of marginal product. It is, indeed, a case of monopsony plus joint production, not the simplest model, but one that exists in the Western World and one that can be analyzed with familiar tools. Moreover, there is nothing peculiarly "eastern" about dependence of rents on "the landowner's need of money". Supply price will always depend on "the scarcity of money", as well as on the relative scarcity of the resource in question; it is only the demand schedule that is determined by value of marginal product. If, on the other hand, Boeke is arguing that rents paid by western enterprise depend solely on the amount of money in the hands of native landowners, as some of his statements suggest, he takes us beyond the limits of credibility. Is the demand for land really infinitely elastic? Is the demand price for land really totally unrelated to the income that can be earned from it? At another point (p. 133) he suggests that it is the amount of money in the hands of buyers that determines price of land. Clearly, the demand price for land will depend on how much money buyers have, in the West or in the East; there is no inconsistency with western theory in that.

To support his theory that rents have nothing to do with marginal productivity, Boeke adduces the following example. In 1920 and 1921, he says, crop failure resulted in a drop in the average rice yield per hectare. The government accordingly forced agriculturalists to sell part of their crop to the government, to help them meet the rice shortage. The real income of Javanese farmers fell, through reduced yield, from 67.5 million quintals of paddy in 1919 to 51 millions in 1921. Hence, says Boeke, "There was not the least reason for land rent to increase." Yet, there was an increase in the cash income of landowners, because they were selling a larger share of their product for money. As a result, landowners were able to pay off debts at the peoples credit banks, the number of new loans fell off, and rents of land rose.

This phenomenon is presented by Boeke as evidence of the impossibility of analyzing eastern economies with tools of economic analysis developed in the West. The simplest explanation would be a direct application of marginal productivity theory: the marginal value product of land--in money--went up, and so money rents rose. I would agree, however, that this explanation is too simple. For an exhaustive analysis, it would be desirable to have further facts. What happened to other crops in the area, and to other prices? However, to the present writer, the sequence of events described by Boeke seems easily explicable in terms of quite ordinary economic analysis. A succession of crop failures

(33) Boeke, Economics..., op. cit., pp. 133-136.

does not necessarily bring an expectation of subsequent crop failures. In a country where double-cropping is common,³⁷ expectations will be short-run, and the discount factor rather small. Under the conditions stipulated, with local supplies of rice reduced and local cash incomes increased, the local price of rice, in barter terms, probably rose.³⁸ Land was a source of real income in the near future; under the conditions described, therefore, it would have been strange if the price of land had not gone up.

In any case, land is an asset, a means of holding wealth, as well as a source of income. It is not uncommon, even in advanced countries, for people to prefer holding land to holding currency. With redundant cash in their hands, why should the Indonesian villagers not have exchanged it for land, raising land values and therefore rents?

Let us next examine Boeke's argument that wage differentials cannot be explained in terms of western marginal productivity theory. First, Dr. Boeke states, the profitableness of various forms of culture varies so much that it is impossible to generalize about "the marginal productivity of native agriculture". Moreover, he argues, "marginal productivity presupposes the existence of a real labour market, that is to say mobility of labour. None of these is to be found in native agriculture: the vessels do not communicate, the liquid is thick and slow moving."³⁹ As we have already indicated, Dr. Boeke himself provides some evidence that landless labor is actually highly mobile; small landowners, working their own land, are highly immobile in the western world as well. In any case, use of the concept of marginal productivity as one aspect of wage analysis is not precluded because of immobility. Even Marshall recognized the existence of "non-competing groups", among which marginal productivity need not be equalized. Finally, Dr. Boeke asks, "How can we make the theory of marginal productivity accord with the phenomenon of wages for the same kind of work varying so greatly at the same time of the year in neighboring localities?" Clearly, the application of marginal productivity theory does not require that wages should be equalized throughout an economy. Immobility of labor, both geographic and occupational, is a common phenomenon everywhere. Indeed, it may be questioned whether occupational mobility is not greater in underdeveloped areas, where trade unionism is thus far less widespread, than it is in the advanced countries. Moreover, contemporary western economic theory does not contend that wages must equal marginal productivity of labor. It recognizes a host of market situations, with relative degrees of monopoly and monopsony power, on the part of labor and of employers, and with wages varying from marginal productivity accordingly.⁴⁰

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- (37) According to Dr. Metcalf, about 10 per cent of land is double-cropped with rice, and most of the rest bears rice and one other crop each year. John E. Metcalf, The Agricultural Economy of Indonesia, Washington, D. C., 1952.
- (38) Central market prices of rice rose from 1919 to 1920; they fell slightly from 1920 to 1921, but much less than general price levels. In any case, it would be necessary only for local tenants to expect rice prices to rise -- a perfectly reasonable expectation. The local tani would not be acquainted with world economic developments.
- (39) Boeke, Economics..., op. cit., pp. 142-143.
- (40) Cf. John T. Dunlop and Benjamin Higgins, "Bargaining Power and Market Structures", Journal of Political Economy, February 1942. For evidence that western economists no longer stress "marginal productivity" in the effort to explain the wage structures of the real world, see Lloyd G. Reynolds, The Structure of Labour Markets, New York, 1951; and John T. Dunlop, Wage Determination Under Trade Unions, New York, 1944. Lest some reader fear that such analysis would not apply where there is no organized labor

Finally, the present writer has found that one other branch of contemporary western economic theory, which Dr. Boeke does not mention at all--the theory underlying monetary and fiscal policy--is a very useful tool indeed when formulating such policies for underdeveloped areas. The general relationships between flows of money and of goods are the same in underdeveloped countries as they are in advanced ones; it is only a matter of selecting the right institutional assumptions. The same may be said of that part of western economic theory which provides the basis for policies directed towards the removal of disequilibrium in the balance of payments. Perhaps, since the monetary and fiscal institutions are largely (though not wholly) western, Dr. Boeke would not disagree on this point.

An Alternative Explanation of "Dualism"

Professor Boeke stresses the need for a distinctive economic and social theory for underdeveloped countries, but he does not really provide one. His "theory" consists in description of eastern society, and demonstration that it lacks those features of western society which have resulted in the economic and social development of the West. Since eastern society is so different, it follows, in Professor Boeke's mind, that such economic and social development on western lines is impossible for the East. My own belief is that an explanation of the relative stagnation of the underdeveloped areas can be found, by applying familiar tools of economic and social analysis, within a model defined by appropriate institutional assumptions. It is my further belief that given such an explanation of underdevelopment the solution to the problem will suggest itself.

Sociological Obstacles to Economic Development

I do not deny that some existing social and cultural institutions of underdeveloped countries differ from those of the West in a manner constituting a barrier to economic development. Institutions, however, can be changed, as they were changed in Europe and in the New World during the periods of rapid economic and social advance in those areas. The time has not yet arrived for a definitive analysis of the sociological factors in economic development of underdeveloped areas, and certainly this is not the place for such an analysis. Elsewhere,⁴¹ however, I have indicated four kinds of sociological barriers to economic development. First is the dilution of incentives to save, invest, work, and restrict family size in an undivided family system. In contrast to a society in which the single family is the basic unit, a society organized around the undivided family--which can become almost coterminous with the village--does not guarantee to a man's immediate family all the benefits, if he works harder, saves more, accepts greater investment risk, or practices birth control. Any gains resulting from such decisions are divided among a group so large that the relation of a particular family's standard of living to its own decisions is a very loose one. Second is the limited scope of entrepreneurial spirit in underdeveloped areas. In many of these countries a feudal attitude towards commerce and industry still prevails, among educated people. There, as in Europe generations ago, "the gentleman does not sully his hands in trade". Innovation in the economic sense is accorded little reward or respect. Yet development of the capitalist type cannot take place without capitalists. Third is what has been

market, let me hasten to add that a "market" in this sense exists wherever there is a wage, in money or in kind--even for the self-employed.

(41) Benjamin Higgins, "Economic Development of Underdeveloped Areas: Past and Present", *Ekonomi dan Keuangan Indonesia*, December 1954.

referred to above as the "backward-sloping supply curve" of effort and risk-taking. To have an incentive to work harder or better, or to take additional risk with one's capital, one must have a clear picture of the more ample life which additional income will bring. A strong spirit of emulation, or a high "demonstration effect", occurs only where some people are currently demonstrating the effects of additional effort or risk-taking. If life in the villages has been much the same for generations, and no one in the village has before him the picture of people moving to ever higher standards of living through their own efforts or their own willingness to risk capital, the expenditure of additional effort, or the acceptance of additional risk, will seem rather absurd. In many Oriental villages, there are virtually only two classes: rich and poor. Nothing approaching the more or less continuous gradation of modes of life found in the West exists in such villages. There is no lower-middle, middle-middle, and upper-middle class through which to move, and a single jump from lower to upper class occurs very rarely, and is hard to imagine, apart from political upheavals.

The fourth sociological problem might be termed the "population multiplier". Boeke points out that industrial investment in Indonesia led to no decline in the proportion of the labor force engaged in agriculture, and implies that the occupational structure is essentially immutable in underdeveloped countries--"traffic in these densely populated regions has to remain within limited bounds, otherwise it creates havoc." I believe that the explanation of stable occupational structure is quite different. In the absence of any control of population growth, industrialization, by producing an initial rise in per capita income, permits a more rapid increase in the native population. If the bulk of industrial investment goes into export industries (such as plantations, mining, and petroleum), or into production for the limited western market (automobiles, tires), as it did in Indonesia, rather than production for the home market combined with measures to generate domestic demand for manufactured goods, most of the increase in population must find employment in agriculture, or remain unemployed.

Such institutional factors are indeed obstacles to economic development. They must be taken into account in any complete analysis, and still more in any recommendations for policy. But they are not immutable; the recent experience of Japan, and some recent anthropological studies of primitive cultures subjected to the "shock" of occupation by American armed forces and similar cases, suggest that cultures can change with astonishing rapidity, and apparently with little pain, if the right formula is found.

Economic and Technical Factors

While recognizing the need for changes in social institutions for development of underdeveloped areas, it is my present conclusion that the chief cause of the "dualism" of underdeveloped areas is the interrelationship between factor endowment and techniques of production. This interrelationship can be analyzed with tools familiar to any well-trained western economist. Considerable progress with such analysis has been made at the Center for International Studies, especially in the work of Mr. R. S. Eckaus.

Throughout successive approximations to reality, Mr. Eckaus' conclusion remains fundamentally the same: "with a very high labor/capital ratio, structural unemployment of labor in the labor-intensive, variable-coefficient sector is almost certain to appear, and cannot always be removed by price adjustments alone. His model is, of course, still simple as compared to the real world. But as Mr. Eckaus points out, it has "most of the characteristics of the many-good many-factor case." First attempts at complicating the model still further suggest that the conclusions are not altered. He also demonstrates (what is intuitively appreciable) that structural unemployment will be aggravated under any of the following conditions:

- a. If wages are kept artificially high by trade union activity, or by government policy.
- b. If technological progress takes a form favoring the capital-intensive sector.
- c. If the rate of population growth exceeds the rate of capital accumulation in the labor-intensive sector.

Finally, it is demonstrable (and easily appreciated) that the same results will occur if entrepreneurs in the "western" sector merely think that technical coefficients are relatively fixed, even if they really are not. In down-to-earth terms, if the western managers of mines and plantations are so convinced of the superiority of mechanized techniques that they do not seek labor-intensive ones, the fact that alternative methods may be technically available will not alter the economic situation.

Most underdeveloped areas would fit into one or another of the Eckaus models; the last of them fits the Indonesian case beautifully. The westernized, plantation-and-mining sector is capital-intensive, and the technical coefficients are--or are presumed by managers to be--relatively fixed. The colonial background of the country has meant that capital has been poured into this sector alone. The other sector, comprising domestic agriculture and small industry, is technically variable-proportion; but since little capital and much labor was available in this sector, actual techniques are labor-intensive. [In the economy as a whole, the ratio of available labor to available capital is very high. Consequently--applying the Eckaus analysis--structural (disguised) unemployment in the domestic enterprise sector is inevitable, unless techniques or factor-endowments are changed. The unemployment is aggravated by restriction of innovations to types favoring the capital-intensive sector, by a rate of population growth far exceeding capital accumulation in the domestic sector, and more recently, by trade union activity and government policy setting wage levels which, low as they are, are high relative to the marginal productivity of labor.]

Under these conditions, there is no incentive for groups of individual farmers to make marginal and unrelated investments of capital in the labor-intensive sector, or to introduce labor-saving innovations (and there are no others available). Nor is there any incentive for labor as a group to increase its effort, since the labor supply is already redundant; and as indicated above, the decision tends to be presented in a form requiring response from a group, whether a trade union or an undivided family. Thus methods remain labor-intensive and levels of technique, man-hour productivity, and economic and social welfare remain low. Hence, "dualism"!

Conclusions: Nature of the Solution

This explanation of dualism provides a much more hopeful outlook for development of underdeveloped areas, along western lines, than Dr. Boeke's analysis, with its "back-to-the-village" policy conclusions. [The conclusion from the above analysis is that development requires primarily large amounts of capital investment, especially in the underdeveloped sector. This investment must be made in a sizeable lump, and not through the marginal increments that result from a set of unrelated individual decisions. In other words, it needs capital investment on a scale, and of a type, that will only be possible through joint efforts of the underdeveloped countries, and of those advanced countries able to provide large-scale capital assistance. Insofar as possible this investment should be accompanied by improvements in techniques that are labor-absorbing rather than labor-saving.]

[Of course, capital is not the only scarce factor in underdeveloped areas. Managerial and labor skills are also in short supply. However, both managerial and manpower skills can be provided in the short-run by foreign experts, and in the long-run by manpower training programs under technical assistance. In short, what is required is more of the same kind of capital and technical assistance that is already being provided to underdeveloped countries. The trouble is not so much that assistance is of the wrong kind, but that it is on far too small a scale.]

The question as to which of these interpretations is right is very far indeed from being an academic exercise. If Dr. Boeke is right, a great many valuable man-hours, and a good deal of money, are being wasted in a vain attempt to develop underdeveloped countries by providing expertise and capital from the West. Current efforts to persuade the governments of the "have" nations that such assistance should be greatly enlarged, and divested of all political, military, or economic "strings", would be misdirected. But the conclusion of the above analysis is that Professor Boeke is wrong. This statement is not meant as a denial of Boeke's vast knowledge of prewar facts concerning Southeast Asia. Nor do I deny the great importance for analysis and policy of understanding the special features of the cultures and social organization of underdeveloped countries. Still less would I deny the need for more empirical research on social organization and culture patterns in these countries, although policy decisions probably cannot wait for the results of this kind of research, which is painfully slow. My conclusions are rather that the facts regarding social behavior in these countries are not clear, and that the impressions of other observers are too different from Dr. Boeke's to accept his statement of them as definitive; that with proper care in selecting institutional and behavioral assumptions, western economic theory is a very useful tool for analyzing the economic problems of these countries and for suggesting policies to deal with them; that the basis of "dualism" is not essentially social, but economic and technical; that the economic and technical problems can be solved by economic and technical assistance of the kind the West can provide; and that Dr. Boeke's insistence on "slow" evolution through "village restoration" is defeatist, and indeed dangerous, because it is precisely slow evolution that cannot succeed in the face of all the obstacles.

But if sufficient large-scale technical and capital assistance, combined if possible with technological progress of a non-labor-saving kind, is a solution to the economic and technical problems in development of underdeveloped areas, what of the social and cultural obstacles to such development? If truly ambitious programs of capital and technical assistance are undertaken, with the full, whole-hearted and sympathetic cooperation of the underdeveloped countries themselves, I believe there is a good chance that the social and cultural obstacles may disappear without being attacked directly. However, this result will be attained only if the scale of such assistance is big enough both to provide a "shock treatment" and to turn the present large-scale disguised unemployment into an asset. The program must be as big in relative terms (measured, let us say, in terms of the rate of per capita capital accumulation or rate of increase in man-hour production) as was the Industrial Revolution in Europe; which means, in view of the very much larger population in the now underdeveloped areas, that it must be very much greater in absolute terms than anything that occurred in Europe in the eighteenth century or in the New World in the nineteenth and twentieth.

If the program of capital and technical assistance is big enough to produce a rate of increase in productivity high enough to outrun population growth for a time, there is good reason to suppose that the social and cultural barriers to further development will melt away. The undivided family, for example, is already breaking down in the industrialized urban centers; given a truly rapid rate of industrialization and urbanization, there is good reason to suppose that the undivided family system would be replaced by a single-family system, with a corresponding improvement in the incentive pattern. Similarly, the feudal attitudes

toward entrepreneurship will tend to disappear, if trade and industry provide a route to the top of the social scale--even if it takes one or two generations--as it did in Europe and in the New World. If the economy is expanding and businessmen are being trained, opportunities for accumulation of wealth will be created; and if enough people in the underdeveloped areas become rich through trade and commerce, the feudal attitude towards "sullyng one's hands in trade" will break down in the Orient as it did in Europe. Similarly, if standards of living are really improving, so that people have before their eyes a picture of families moving from one standard of living to a higher one through their own efforts, the "backward-sloping supply curve" will give way to a willingness to work harder, save more, and assume greater risks in hope of attaining a more ample life. Finally, there is some reason to hope that fertility rates will fall with industrialization and urbanization in the East, as they did in the West.

Ultimately, therefore, the development of underdeveloped areas is a political problem--or a matter of will. Given the will, in both the underdeveloped and the advanced countries, combined with an understanding of the true nature of the problem, the retarded countries of the world can be turned into progressive ones. And it can be done without sacrificing the splendid features of Oriental culture and philosophy, which everyone who has lived in the East comes to admire.

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ECONOMIC DEVELOPMENT IN INDONESIA:
SOME SOCIAL AND CULTURAL IMPEDIMENTS*

In the following pages an effort will be made to describe some of the major cultural and social obstacles that stand in the way of Indonesia's present economic development. For the sake of convenience they will be grouped around three modal aspects of the country's economic structure and its patterns of economic action. These three aspects---the problem of low productivity of labor, the parasitic function of the autochthonous entrepreneur, and the high degree of state control over those with intellectual and developmental skills---may serve as useful points of departure in an analysis of certain contemporary culture traits and social structural forms that impede a more rapid rate of economic growth.

I

Complaints that the Indonesian laborer, especially when employed on Western estates and plants, is producing little and even less than in the pre-revolutionary period, have been voiced by numerous Indonesian political leaders as well as by foreign business spokesmen. President Sukarno, Vice-President Hatta, former Premier Mohammad Natsir, and former Economic Affairs Minister Roosseno, to name but a few, have all stressed the pivotal importance for the Indonesian masses of harder work and greater productivity. Western business interests in their annual reports have generally expressed identical views. The 1953 report of the large Escompto Bank in Indonesia and the 1954 report of the National Indonesian Bank both point out that an improvement in the country's economic condition can only be expected from an increase in production.¹ The Escompto Bank Report states that it will be necessary to increase the number of working hours per day and to convince organized labor groups that such an increase will ultimately be only to their own advantage. Labor radicalism is exacting its toll of the production process: the Ministry of Labor has revealed that in 1953 more than 4.3 million labor hours were lost through strikes and work stoppages alone.² Spokesmen for foreign capital interests in Indonesia have complained for years that labor unrest, decreased production, theft of produce, and exorbitant union demands are bringing them to the point of having to transfer their interests outside the country.³ Rubber and tobacco production on the East Coast of Sumatra, once one of Indonesia's most extensive plantation areas, has dropped to 50% of pre-war figures, according to an estate spokesman.⁴ Professor J. H. Boeke has also pointed out that the present 7 hour working day (40 hours a week) of estate laborers is, given the nature of their work, wholly inadequate to maintain proper production.⁵ The effective working week on many estates is considerably less than 40 hours a week, however, which means that the processing plants dependent on estate

* Footnotes numbered 17, 22, 24, and 26 refer to a version of the article immediately preceding this which was published in an Indonesian journal. For comparable text references in our version, see page 205.

(1) Java Bode (Djakarta), May 25, 1954; August 5, 1955.

(2) Ibid., March, 1954.

(3) See J. M. van der Kroef, "The Dutch Position in Indonesia Today", Far Eastern Survey, Vol. 23 (1954), pp. 88-94.

(4) Nieuwsgier (Djakarta), June 22, 1954.

(5) J. H. Boeke, "Capitalist Development in Indonesia and in Uganda. A Contrast", International Social Science Bulletin, Vol. 6 (1954), p. 428.

production cannot operate at capacity, resulting in further losses for the whole industry.⁶ And after a consideration of Indonesian production methods, including the prevailing degree of mechanization, McVoy concluded that "average labour productivity in Indonesia is among the lowest in the world".⁷ Some significant technological and economic factors are undoubtedly responsible for this condition, but the following analysis will be concerned primarily with some of the socio-political and cultural causes of the low labor productivity. In this connection, two separate aspects of the problem should be considered: (1) the influence of the doctrines of revolutionary nationalism on Indonesian labor productivity, and (2) the persistence of a subsistence orientation in the economy.

To ascribe the low level of, or the decline in, production merely to persisting anti-colonial sentiments among Indonesian workers is but to touch a superficial aspect of the problem. It is first of all necessary to emphasize how deeply certain objectives of the Indonesian Revolution have penetrated into the new national Indonesian culture and into broad layers of popular opinion, especially on Java. For the thousands who were uprooted by the Japanese occupation and the revolutionary war against the Dutch, and who roamed the countryside, cut off from traditional familial and socially protective bonds, Messianic and immanentist expectations assumed an over-riding importance in their subsequent "revolutionary" behavior. Inseparable from the revolutionary cries of Merdeka tetap merdeka! (Freedom, always freedom!) and berdjaoang terus! (fight on!) was a buoyant immanentist outlook, which held that the golden age of mass prosperity was just around the corner and that with a little effort one could make ancient prophecies forecasting the coming of such a Millenium come true. (Also, on the strength of such prophecies senseless outrages were perpetrated by Indonesian revolutionaries against people of "yellow skin" and of "white skin", i. e., Chinese, and Europeans and Eurasians, because their end had been foretold and because, by hastening their demise, one could make the Millenium appear.) The cloudy forecasts of King Jayabhaya, the folk sayings of Glondok, the Muslim tradition of a Mahdi (Messiah), the possibly Christian-inspired prophecy of the return of the Ratu Adil (Just King), and a host of less respectable immanentist forecasts, frequently concocted by demagogues on the spot, all became part of the Indonesian revolutionary tradition: with the attainment of political freedom and the end of the rule of the whites, wealth and happiness would, like manna, come falling from the heavens.⁸

This idea of a "ready made" prosperity that can somehow be obtained independent of economic processes, collective sacrifice, or individual effort is an important deterrent to productivity increase and suggests, as I have noted elsewhere,⁹ a similarity with the Messianic "cargo" expectations current in Melanesia. The "cargo" cult is a nativistic movement revolving around the prophesied coming

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- (6) Benjamin H. Higgins, "Economic Development of Underdeveloped Areas: Past and Present", Ekonomi dan Keuangan Indonesia, Vol. 7 (1954), p. 796.
 - (7) Edgar McVoy, "Some Aspects of Labour and Economic Development in Indonesia", Ekonomi dan Keuangan Indonesia, Vol. 7 (1954), p. 804.
 - (8) On these Messianic traditions and their relation to the revolution, see J. M. van der Kroef, Indonesia in the Modern World, Bandung, Indonesia, 1954, Vol. 1, pp. 119-121. Interesting details are also offered by C. C. Berg, "Toekomstverwachtingen in het Javaanse denken", Schakels, April 1951, pp. 3, 7; and F. C. Kamma, De Messiaanse Koreri-bewegingen in het Biaks-Noemfoorse Cultuurgebied, dissertation, 2d ed., The Hague, 1955, pp. 213-216.
 - (9) J. M. van der Kroef, "The Messiah in Indonesia and Melanesia", The Scientific Monthly, Vol. 75 (1952), pp. 161-165.

of a vessel manned by the sacred ancestors and carrying a cargo containing the implements and the "mystical" techniques of production of the white man, which have given him superiority over other races. With this cargo the native peoples will rise to prosperity and power and equal, if not surpass, the whites. While there may be cultural differences between these Messianic expectations in Indonesia and Melanesia, both share, I believe, this concept of a "packaged" prosperity and technological perfection associated with the Westerner, denoting above all a complete ignorance of the arduous labor, painstaking ingenuity, and the particular historic combination of socio-economic conditions that have made the wealth and technological advancement of the Western world possible.¹⁰ Thus the tradition of the Millenium in Indonesian history and culture has been fused in the heat of nationalism and revolution with the concept of the modern welfare state and its bounties, and the latter is expected to come into being by the same miraculous means associated with the former. There can be little question that this Messianic orientation, which often achieved a certain blatant crudeness by simply arousing popular greed for material gain, was fostered by Indonesian revolutionary leaders themselves and justified by them because of the lofty objectives of the nationalist struggle for independence. But the delusion so deeply implanted proved to be impossible of eradication overnight. With freedom won, mass prosperity was also expected. Sudden new appeals to the rakjat djelata (common man) to put his shoulder under the job of national reconstruction, to work hard and "fulfill" the revolutionary objectives fell on an uncomprehending mind. Not only did the economic Millenium refuse to appear, but the whites and their factories and plantations were still there after the day of political independence.

The delusion was easily transformed into a strident bitterness by radical politicians and labor leaders, who never wearied of extolling the evils of foreign capitalism, the--admittedly--harrowing living and working conditions of estate coolies in the colonial period, and the blessings of nationalization. Large labor federations like the SOBSI, and the dominant estate workers union, SAREBURI, soon came under Communist leadership; strike wave followed strike wave before, during, and even after every campaign for increased wages. Some cabinets, like the one led by Ali Sastroamijoyo, which was supported by the Communists, made little more than a pretense of protest when strikes were called in defiance of government arbitration decisions. The Korean War boom benefited labor only to a limited extent; more conspicuous was the waste of revenue surpluses by incompetent government agencies. Worsening economic conditions, attested to by a recent report showing a decline of per capita income of 15% compared to the last normal pre-World War II year,¹¹ underscored the growing importance of two other factors

(10) Another example of this mentality is the reaction of a community of Papuans in Western New Guinea recently, as described by H. Roethof, "Papoea en Economie", Oost en West, September 1955, pp. 12-13: "Near Ajamaru in the Vogelkop area, an entire community last year desired to abandon all at once all ancient traditions. The most important cause of this was the contact that existed within this community with returning oil industry workers on short contract. The reaction crystallized in discussions with government officials and in the solemn burning of various traditional buildings and objects. Instead of these there was a demand to bring about without delay a community based on Western foundations, that is to say, a society which one had entirely externally copied from the West. The most important attributes of this were technical, such as means of transport, machinery, electric lighting, etc." (Underscoring mine). I have attempted to describe the significance of this positivistic orientation, which believes that one can equal the West by merely importing the external attributes of its superiority, in my Indonesia in the Modern World, op. cit., Vol. 1, pp. 107-108.

(11) S. Daniel Neumark, "The National Income of Indonesia", Ekonomi dan Keuangan Indonesia, Vol. 7 (1954), pp. 350-351.

in the problem of decreases in production, namely the accelerating proletarianization of the Indonesian masses and what might be called the fetishization of the Revolution.

The revolution brought in its wake, especially on Java, a vast social dislocation and mass migration. Thousands who had marched away from their villages in Japanese labor battalions, auxiliary army units, and later as guerillas or as members of the revolutionary fighting corps, never returned home. Those who did not perish in the war flocked to the cities, others took up dacoity, others again obtained land or worked it for others. But for all, the ties with the past had been broken and the mutually protective bonds of family or village had been permanently loosened. Increasingly these tens of thousands became wholly dependent on a money wage, and as such, of potential importance to the growing labor movement. Work on the foreign-owned estates and plants became "professionalized".¹² The seasonal or part-time non-union worker, who earned some extra income by working on an estate or in a plant, but who remained essentially a peasant small holder, all but disappeared, and with his demise organized labor gained in strength. To an incomparably greater extent than in the colonial period, Indonesian labor could present a common front against foreign capital and management, and with each, seemingly inexorable, annual increase in the country's population it saw its ranks grow in numbers.

Perhaps the chief significance of this growing deployment of labor's strength is: it is occurring before industrialization has taken place to any considerable extent, and before autochthonous capital resources have been adequately accumulated. Moreover, the Indonesian labor movement has always had a pronounced political character: as the chief allies of nationalist parties, the trade unions learned to use the strike primarily as a weapon with which to combat the colonial authority. And finally, the labor movement was and is one of the chief platforms in Indonesia from which the attributes of the welfare state are disseminated. One cannot stress enough that in the context of the values of the developing national Indonesian culture, as it is making its appearance throughout the country, the right to a high standard of living is held to be inseparable from the right to political independence. The curious paradox in this situation is, that while Indonesia's worsening economic condition pushes the realization of a high standard of living further and further into the future, the labor movement in particular constantly campaigns for its members' right to such a high standard now, and by its irresponsible strike campaigns and wage demands, is forcing such major capital interests as the country has, to reconsider their position. The individual frustrations inherent in this paradox make fertile soil for a continuous campaign against the Dutch and other Western capital, implying that with nationalization of all enterprise, the golden age will yet be realized. Only a handful of Indonesian leaders, among them Vice-President Hatta, have tried to caution against this new delusion. Meanwhile much of the labor movement is continuing its campaign against the presence of any foreign capital by all legal and even illegal means.

As the realization deepens that the expected Millenium is not going to appear, now that independence has been won, a new process of doctrinaire sanctification of revolutionary principles is taking place which elevates them beyond the pale of critical discussion and sober analysis. The evident falsehood of the equation, "freedom is prosperity", is countered by elevating it to an article of faith and of making every principle of the Revolution into a fetish. In this climate of Jacobin absolutism, the terms "colonialism" or "imperialism" can be attached to any condition one despises, whether it applies to the estates, Western dancing, or to the unfortunate government physician who was recently fired for advocating the use of Western toilet paper instead of "the water of our land".

(12) J. H. Boeke, *op. cit.*, p. 427.

In a sense this condition is but a continuation of that of the Revolutionary period when every act, however wanton, could be justified by associating it with the struggle for freedom. The stereotyping of symbols already current in the revolutionary period has now, if anything, become even stronger. A host of images and slogans, whose meaning or implications are only dimly understood (e. g., Pantjasila, Irian, or "colonialism"), are employed to direct existing frustrations against desired objectives and to divert attention from the economic decline following the revolution. The antithetical character of the revolutionary struggle dominated thought and action for so long that now it has become almost a psychological necessity. The post-revolutionary Indonesian, uprooted from his traditional environment, often seems to give the impression of having no other frame of reference than the one that prevailed in his struggle against the Dutch, and amidst his present uncertainty and poverty, only the memory of the buoyant war cry "berdjaoang terus" (fight on!) still lives. The plodding job of reconstruction, particularly if it involves further sacrifices, can hardly compete with the elan of this slogan.¹³ In his analysis of "The Crisis in Indonesian Culture", the talented Indonesian journalist Sudjatmoko described the problem thus:

The crisis in which we find ourselves is clearly a crisis of leadership. Its origins lie in the inability of this national leadership to adjust itself to a new situation after the attainment of independence, to realize that the world in which we have now conquered our place is a different one than the one which presented itself to us from our narrow nationalist view in the period of our struggle against the Dutch power, and makes different demands...And herein lies the failure of the old leadership which has guided us to the gateway of independence that it is unable to disengage itself from the mental outlook which brought the first phase to a successful end but does not have the ability to adjust itself to the demands of the second [phase]. The character of the struggle in the first phase was narrowly political, directed against Dutch authority, and therefore antithetical. The demand of the present is a creative one. This is the basis of our crisis.¹⁴

The traditional subsistence orientation of the Indonesian producer must be considered as another cause of the low labor productivity. In particular, this has been the viewpoint of J. H. Boeke and other adherents of the school of "dualistic economics", for whom there is a wide and nigh unbridgeable gap between the economic structure of Western late capitalism and that of the Oriental world, the village society in particular. For Boeke and his school the "identification of welfare with wealth turns out to be a Western trait, not shared by those subjected to Eastern principles of life".¹⁵ The dualistic sphere of Indonesian economic life, which typically comprises most of the rural population, is according to Boeke one of limited needs: incentives to increase production, such as higher prices, have no effect; and people are interested only in satisfying a limited range of immediate subsistence needs, which Boeke implies, are almost static in character. Once these needs are met, little or no further thought is given to production. Rationalization of enterprise, adequate cost price calculation, proper understanding of credit, all these are, to a greater

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- (13) Compare the recent report on Indonesia by Albert Besnard in Algemeen Handelsblad (Amsterdam), May 26, June 14, 1955, reprinted as Documentatiestuk No. 255, of the Stichting voor Culturele Samenwerking.
- (14) Sudjatmoko, "De Crisis in de Indonesische Cultuur", De Nieuwe Stem, Vol. 10 (1955), pp. 328-329.
- (15) J. H. Boeke, The Interests of the Voiceless Far East. Introduction to Oriental Economics, Leyden, 1948, p. 14.

or lesser extent, lacking. The dualistic sphere is primarily interested in meeting socio-religious needs; it is, in contrast to the Western sphere, anti-materialistic. Development policies aimed at raising the level of welfare of the dualistic producers run aground on the stubborn reefs of an essentially "non-acquisitive" economic mentality.¹⁶

These assertions, it must be noted at the outset, are based on Boeke's decades of experience in Indonesia (and on lengthy first-hand contact with Indonesia by his adherents). Many objections can, and have been, raised against them. The allegedly "static" character of the Indonesian producer's wants, which presumably may make him disinclined to increase or perfect his production, seems particularly difficult to confirm throughout Indonesia. One critic of Boeke, Professor Benjamin Higgins, has pointed out that

Wants of the villagers, far from being limited, are so many and varied that any "windfall", occurring initially through increased exports, is quickly spent on imported semi-luxuries unless vigorous import and exchange controls are applied to prevent it. Far up the great rivers of Kalimantan (Borneo), hundreds of miles into the jungle, good rubber prices result in a spate of orders for bicycles, mattresses, watches, fountain pens, and the like.¹⁷

The widespread smuggling by small holders--producers of rubber--who prefer to sell their crop for higher prices on the Singapore black market, would indicate that some Indonesian rural producers are getting to be very "price conscious" indeed and are anxious to get as high a return on their production as possible. And what is one to think of a recent statement of the governor of Kalimantan (Borneo) that the smugglers in his province receive refrigerators, watches, and electric lighting generators in return for their crop, and that, on one small island, the population even has its own electric lighting service?¹⁸ Other students have pointed out that the dualistic economic sphere certainly knows it search for profit and that "unlimited needs" play a much larger role in the Indonesian economy than Boeke seems to think.¹⁹ The writers of the Indonesian government's recent industrial development report indeed go so far as to dismiss Boeke's "dualistic" theory as "pseudo economics", pointing out that wherever and whenever improved production methods were brought to the attention of the Indonesian industrial entrepreneur, including the small-scale entrepreneur, whose operations, according to Boeke, are similarly restricted by his "dualistic" mentality, the entrepreneur accepted and applied the suggested improvements "without hesitation".²⁰

It must be noted that these and other criticisms of Boeke's dualistic theory are by no means new. Decades ago objections were raised that "dualistic economics" is not a separate discipline at all, and that its concepts are

(16) See generally J. H. Boeke, Economics and Economic Policy of Dual Societies as Exemplified by Indonesia, New York, 1953.

(17) Benjamin Higgins, "The 'Dualistic Theory' of Underdeveloped Areas", Ekonomi dan Keuangan Indonesia, Vol. 8 (1955), p. 63.

(18) Java Bode, op. cit., January 22, 1955.

(19) D. H. Burger, "Boeke's Dualisme", Indonesië, Vol. 7 (1954), p. 191. Boeke has replied to this article in his "Rechtzetting", Indonesië, Vol. 7 (1954), pp. 273-277.

(20) Institute of Economic and Social Research (Sumitro Djojohadikusumo, editor), "The Government's Program on Industries", Ekonomi dan Keuangan Indonesia, Vol. 7 (1954), pp. 721-722.

demonstrably classifiable within the general science of economics.²¹ Boeke's alleged ignoring of the common economic concept of the backward bending supply curve of effort and risk taking and, as a result, his supposedly unwarranted distinction between the "unlimited" wants of the Western economic sphere and the more "static" wants of the Oriental or dualistic sphere, had, in substance, already been noted by Aboetari in his dissertation of 1932.²² It is to be feared, however, that many, though by no means all, of these objections, are based on misunderstanding and do not do full justice to Boeke's theories. In relation to the question of the low productivity of the Indonesian, two aspects of the dualistic theory need to be stressed in particular. In the first place, there are wide differences between the various Indonesian peoples in levels of development and culturally determined wants. Undoubtedly those areas in the Indonesian archipelago where traditional and "static" (particularly socio-religious) wants exclusively prevail, or predominate, are fewer than four decades ago, when Boeke first formulated his theories. Moreover, such areas are decreasing in number. Unquestionably, in countless Indonesian culture areas, wants have been altered and/or broadened, and as a result, it is likely that greater incentives exist to produce more or to improve production methods. Furthermore, the rapid process of dislocation from the traditional cultural and social setting has tended to sharpen the Indonesian's acquisitiveness for new goods and services. If through some fortunate set of circumstances (e. g., the boom in rubber during the Korean War), smallholders' export produce fetches an unexpectedly high price, some of this acquisitiveness will and undoubtedly can be satisfied (Higgins' term "windfall" describes it accurately). But, and this is the point which Boeke and his students tend to stress very heavily, there are rather appreciable differences between making use of the unexpected opportunities presented by such an unforeseen "windfall", and a consistent, market conscious, and rationalized production process that aims at maximization of profits at all times, not just during a lucky boom.²³ It is not argued that in time the Indonesian producer cannot master such a process; it is asserted, however, that this is not now generally the case, not the least because the luxuries and semi-luxuries that Higgins has mentioned, the mattresses, bicycles, watches, fountain pens, etc., are still indeed just that--luxuries, and not necessities.²⁴ The basic wants of the

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- (21) For these earlier criticisms see the summary by N. J. Feldmann, De Overheidsmiddelen van Indonesië in verband met de Dualistische Economie, Leyden, 1949, pp. 135-185.
- (22) Aboetari, De Verhouding van de Koloniale tot de Theoretische Economie, Leyden, 1932, pp. 121-122. It is true, as Higgins, "The 'Dualistic Theory' of Underdeveloped Areas", op. cit., pp. 65-66, points out, that many of the specific characteristics attributed by Boeke to "Eastern" society (e. g., the backward bending curve of effort and risk taking, the preference for speculative profit over long term profit, conspicuous consumption in the Veblenian sense) are as applicable to the Western world as to the Eastern. The matter seems to be one of degree, however, and by emphasizing the dualistic nuances of these economic phenomena, Boeke has rendered a great service.
- (23) Aboetari, op. cit., p. 122, notes that when the Indonesian wants to buy something he would rather pay less than more for it, and that when he wants to sell something, he prefers to get a higher than a lower price. From this Aboetari concludes that the economic motive is certainly present among Indonesians. Feldmann, op. cit., p. 146, has justly criticized such an oversimplified attack on the dualistic theory.
- (24) In connection with Boeke's contention of limited wants, Higgins, "The 'Dualistic Theory' of Underdeveloped Areas", op. cit., p. 63, asserts that it is "definitely not true" that a situation exists in Indonesia in

Indonesian producer, those in the rural areas in particular, still include many traditional socio-religious needs. Luxuries from a different cultural context, while certainly increasingly passing into the orbit of more regular consumer wants, especially in the urban areas, do not as such provide entirely adequate incentives for labor production increases. The fact that the Indonesian rural areas are participating more and more intensively in a modern money economy, that the producer is becoming more market conscious and that the pattern of his needs is changing or is expanding in scope, is no reason to assume that the dualistic economic sphere is disappearing. After noting the influence of urban culture on the rural society and the increasing involvement of the rural producer in the money economy, Boeke notes:

It is, however, not permissible to conclude from such phenomena that the rural areas are developing in a capitalistic direction. A lot more is necessary for that: that a new capitalistic spirit permeates the village folk, that its entire attitude toward life has been altered in a revolutionary way and continues to alter itself. And furthermore, that it has become possible for the villagers to transform their new mental attitude into deeds and by their own strength to reach a higher standard of welfare. Only then one may assume that dualism is disappearing in these countries.²⁵

Now it may be true, as Higgins asserts,²⁶ that Indonesian laborers are sensitive to higher wages and will migrate to areas where they may obtain even an "infinitesimal increase in wage rates". By itself, such migration (even if solely

which "the people cannot envisage a standard of living higher than their own or that they could think of no satisfactory way of spending increases in income". I would say that in not a few cases this situation does exist. Such Indonesians as the Mentawai islanders of the West Coast of Sumatra, or the Badujs of West Java, both of whom have lived in prolonged isolation, define their "welfare" according to their own particular cultural standards. Once subsistence requirements have been met (and they very rarely are not), "welfare" is shaped by socio-religious patterns, essentially removed from material considerations. A standard of living "higher than their own" is an essentially meaningless concept for such folk. There are other examples. For these peoples and others, increases in income may not be particularly desirable, and therefore they see no use in exerting greater effort to obtain them, particularly because they know of "no satisfactory way" of spending such increases. For examples and a further discussion of this "dualistic phenomenon", see my "Entrepreneur and Middle Class in Indonesia", Economic Development and Cultural Change, Vol. 2 (1954), pp. 310-313.

(25) Boeke, "Rechtzetting", op. cit., p. 275.

(26) Higgins, "The 'Dualistic Theory' of Underdeveloped Areas", op. cit., p. 64. Some of Higgins' criticisms of Boeke seem rather debatable. He points to the "growing strength of organized labor" in Indonesia (and other underdeveloped countries) in order to refute Boeke's description of the passive and unorganized Oriental laborer, but forgets that the present strength of Indonesian labor is derived largely from its political position. Higgins asserts that the growth of small holders' rubber exports refutes Boeke's argument that native agriculture cannot compete with Western estate enterprise, but he is not aware that estate exports have steadily increased in the past two years at the expense of native agricultural exports (Cf. J. M. van der Kroef, "Indonesia's Economic Difficulties", Far Eastern Survey, February 1955, p. 21, Table 3. Higgins refers to "two million applications" in the files of the Indonesian Department of Transmigration to contradict Boeke's insistence on the

motivated by higher wages, which is to be doubted) is no sign that the Indonesian plantation laborer has definitely left the dualistic sphere. Again Boeke has pointed out that in the several stages of economic development (e. g., pre-capitalism, capitalism, communism), there are clear subdivisions, each of which may well contain elements of the succeeding phase of development. But the transition from one phase to the next is a "revolutionary deed", which, if it occurs collectively, brings with it "a forcible overthrow of the social system, and which individually in any case, means that one feels oneself a heretic, an enemy of the existing order, an antagonist of the social milieu."²⁷ A segment of the Indonesian proletariat could unquestionably be characterized by this description, but again, it can hardly be viewed as a general condition of the Indonesian producer today. The obligations exacted by socio-religious custom and usage (*adat*), the subsistence orientation of the village economy, the transcendent importance of traditional non-material values (including the expectation of a Messianic "windfall"), these are still potent factors in the life of the Indonesian. They are the prime determinants of his concept of welfare, in which the economic element is only of secondary importance, and hence "every effort to get an impression of the welfare standard by materialistic means must lead to incorrect, because incomplete, results and conclusions."²⁸ It is the great merit of the dualistic economic theory to have related these determinants of welfare to the Indonesian production process.

II

The problem of low labor productivity in Indonesia may be extended so as to include the essentially unproductive character of a large segment of the autochthonous Indonesian entrepreneurial group. Here again a number of contemporary socio-political factors in combination with certain traditional Indonesian culture traits operate in such a way as to impede a more rapid rate of economic development. Prior to the colonial era, the Indonesian harbor principalities, as well as the inland empires, were familiar with a class of traders and handicraftsmen, whose dealings often extended far beyond their home archipelago. Much of the fabulous ancient Oriental trade was carried on by peddlers, travelling with goods on consignment and financed in their enterprises by the aristocracy at the court centers, who acted as more or less "passive" investors in the trade.²⁹

difficulty of persuading the Javanese to migrate. Transmigration has undoubtedly increased, but only thanks to heavy government pressures. As for the "two million applications": it is not difficult to get the Indonesian to apply for anything, particularly if the invitation is made by the local civil service officials, whose powers are still interpreted in most areas in almost traditional feudal terms. Higgins' assertion should also be contrasted by the conclusion of C. B. van der Leeden, *Het Aspect van Landbouwkolonisatie in het Bevolkingsprobleem van Java*, dissertation, Leyden, The Hague, 1952, p. 20, that there would be little or no transmigration without continuous government insistence.

- (27) Boeke, "Rechtzetting", *op. cit.*, p. 275.
- (28) van der Leeden, *op. cit.*, p. 60-61.
- (29) This description is based on J. C. van Leur, *Enige Beschouwingen betreffende den Ouden Aziatischen Handel*, dissertation, Leyden, Middelburg, 1934. This excellent treatise, together with some other shorter pieces by the same author, has recently become available in an English translation under the title, *Indonesian Trade and Society, Essays in Asian Social and Economic History*, by J. C. van Leur, W. van Hoeve, ed., Bandung, The Hague, 1955.

Chinese, Indians, and countless other nationalities participated in this commerce along with the Indonesian merchant entrepreneurs. But after the establishment of Dutch colonial hegemony and Dutch trade monopoly, the Indonesian class of traders, particularly in the inter-island trade, gradually declined, becoming confined more and more to small scale commercial and handicraft operations inland. The Chinese and other Oriental minorities were, however, able to retain much of their position by assuming the all important middleman operations between the Indonesians and their Dutch colonial masters.³⁰ Not until the twentieth century does Indonesian enterprise in trade and handicraft begin to show signs of revival, due, among other reasons, to official (if haphazard) Dutch assistance, to the growth of education, and to a vigorous intellectual quickening under Islamic auspices. Much of this new impulse was stifled, however, by other government policies, by the strongly entrenched position of the Chinese, Arabs, and other non-autochthonous nationalities, and by indigenous agrarian-communal cultural traditions, which especially in parts of Java, equated the trader-entrepreneur with the mistrusted foreigner, the man without roots and traditions.

But from the start nationalism allied itself with the aspirations of this new embryo Indonesian group of entrepreneurs. The economic dominance of Dutch and Chinese which thwarted their operations could and was made part of a program of nationalistic political action as well. Most of the Islamic branch of the nationalist movement in Indonesia has tended to reflect more or less bourgeois economic aspirations in opposition to foreign (i. e., Dutch and Chinese) economic interests. Indeed, it is not difficult to see such a bourgeois orientation throughout the whole Indonesian nationalist movement and its many and varied parties.³¹ The importance of this alliance between the nationalist movement and the Indonesian entrepreneurs lay in the fact that the latter increasingly came to depend on political action to further their interests. These entrepreneurs were generally not men who succeeded in establishing sizeable enterprises by their wits, daring, or sheer business acumen despite enormous odds, the competition from the Chinese, or the ineffectual and half-hearted encouragement of the Dutch. Some of these there were, to be sure, but they were rare exceptions. Most of them were small time operators, with *dé classe* grievances. Schumpeter's entrepreneurial mentality was on the whole lacking among them, but their frustration was highly developed in the indifferent if not hostile colonial environment. To them, the success of the Indonesian Revolution therefore meant an opportunity to legislate a new and commanding business position into existence, to stabilize themselves by means of their political influence, and to start reaping handsome profits, again not because their business or managerial skills could now be fully utilized or deployed, but because they could capitalize on their political position and connections. The import-export sector of the economy especially became the domain of their special attention, for Indonesia's economic health still depends almost entirely on the export of her agrarian produce and minerals and on the import of most industrial commodities. Fortunes were to be reaped here. Fortified by the government's policy of changing Indonesia's economy as quickly as possible from a "colonial" to a "national" one (i. e., hindering or restricting the operations of Western or Chinese entrepreneurs) and armed with special import-export licenses issued for their benefit, a relatively small but politically highly influential group of Indonesian entrepreneurs (the so-called *benteng* group) enveloped the government in an extensive

(30) See J. M. van der Kroef, "Social Movements and Economic Development in Indonesia", American Journal of Economics and Sociology, Vol. 14 (1955), pp. 123-137.

(31) See, for example, J. M. Pluvier, Overzicht van de Ontwikkeling der Nationalistische Beweging in Indonesië in de Jaren 1930 tot 1942, Bandung, The Hague, 1953, pp. 50-103.

network of graft, corruption, and bribery. Lacking adequate resources themselves to make full use of their special licenses, such entrepreneurs tended to become mere front-men for Chinese, Arab, and even European firms, or they simply sold or leased the licenses to the highest bidder.³² The policies of Economics Affairs Minister Iskaq Tjokrohadisurjo (1953-1954) particularly opened the licensing system to countless abuses. Like some parasitic growth, an important segment of the Indonesian entrepreneurial group attached itself to the country's body economic. And, although Iskaq's successors attempted to eliminate the worst evils, little progress has been made. A moral apathy accompanied this economic decline. Illustrative, perhaps, is the story told by Professor Roosseno, Iskaq's successor in the Economic Affairs Ministry. A student who had just graduated from high school applied to Roosseno because he could not find work. The Minister asked the student what he would like to do, and the latter replied that he would like to be recognized as an importer by the government. This, the Minister regarded as a "typical example of the moral crisis".³³

The parasitic function of the present entrepreneurial élite has an historic and cultural background that should not be overlooked. As was pointed out above, the aristocracy in pre-colonial days participated in commerce and industry as an investor element, financing much of the peddlers' trade, equipping vessels for overseas ventures, buying and selling luxury items, and so on. Perhaps more important to the aristocracy were the political prerogatives associated with its economic activity: the right to piracy, to special levies, special taxes, preferences, monopolies, commissions, etc. To a large extent the present entrepreneurial élite in Indonesia finds itself in an identical position. The revolution has made it into a new top social group and the democratic-republican structure of the state has given it a new, undreamed-of political influence as well. The classical, rough-and-ready, self-made business tycoon, who represents the apogee of capitalism and entrepreneurial acumen in the West, has never had much appeal for the new, élite conscious Indonesian entrepreneur. About the ambition-ridden and hard driving tycoon familiar to the West hangs an aura essentially repugnant to traditional Indonesian values. He suggests, in his intensity and use of energy, a pre-occupation with almost manual labor, which is incompatible with the Indonesian view. Power and wealth in this traditional context first of all suggest exercise of privilege and a more or less "passive" enjoyment of the emoluments of one's station. It does not seem unreasonable to suppose that something of this traditional value pattern still influences the Indonesian entrepreneur today.

Facilitated by managerial and organizational inexperience and by inadequacies of the government, entrepreneurial parasitism has become deeply imbedded in all levels of economic activity. Like the priaji (nobleman) or merchant prince of old, the modern Indonesian entrepreneur may have in his employ a sizeable entourage of clients, underlings, "runners", etc., who assist their patron in his often nefarious dealings. An example is what happened when the government recently attempted to make inexpensive but highly needed textiles available to the inhabitants of Djakarta, and to that end supplied a number of dry goods shops with daily quantities of muslin and cotton. Every buyer was entitled to only two metres of the material, but soon a number of black marketeers, all duly organized in special associations (tjatuter kongsi) and assisted by their "clients", began to buy up the textiles:

The distribution (of the textiles) is thwarted by an army of black marketeers who have even "chartered" female beggars in order to get the people's textiles in their possession. For the sum of five Rupiah (about \$0.40)

(32) van der Kroef, "Indonesia's Economic Difficulties", op. cit., pp. 19-20.

(33) Java Bode, op. cit., March 3, 1955.

these beggars stand in line for a number of hours. The "tjatuter" (black marketer) has taken care that they do not stand out in the line. He has lent them some clothing, which after work must be returned. Also the money needed to buy some textiles he has advanced them. The black marketer furthermore has a number of men handy who keep the beggars standing in line under surveillance, in order to prevent that they will take to their heels with the bought materials. Over and above these the black marketer has some scores of "runners" in his employ, who do the same work as the beggars but demand a better wage from their employer. And this last-named gentleman is quite willing to undertake all these expenses, particularly when textiles are being distributed which the population likes...In a couple of hours the shopkeepers have exhausted their daily supplies. The black marketer binds his loot on his bicycle and goes home, where he hides it in a safe place...Later, when the lines before the shops have disappeared because the supply of the cheap textile has been exhausted, the black marketer emerges in the countryside, where he sells his textiles with at least 80% profit.³⁴

Familial and cultural particularism and obligations toward relatives, clan, group, or ethnic minority weigh heavy on the entrepreneur, but at the same time his illegal dealings are excused if they benefit his family or people. Thus, even Nadjamuddin daeng Malewa, former premier of the state of East Indonesia, who was accused of theft, was defended by his fellow Makassarese on the grounds that Nadjamuddin had kept nothing for himself, but had benefitted the entire Makassarese ethnic group.³⁵ Familial and ethnic piety, though possibly a "sociological drag" in entrepreneurial activity, also have their advantages, a factor frequently ignored in analyses of impediments to economic development.³⁶ This factor has furthermore been strengthened by the success of the Indonesian Revolution itself: nepotism and graft can be excused by pointing to the revolutionary record of the perpetrators and beneficiaries of illegal dealings and by branding any effort to insure greater efficiency as "Western" or even as "colonial". There appears to be some evidence that a split exists among leading figures in political life, the army and the police on this score: some wish to modernize and rationalize political and economic life along more efficient Western lines; others, out of a spirit of nationalism at once revolutionary and reactionary, wish to preserve the "Indonesian" character of the country by eliminating all Western influences.³⁷

In general, fiscal instability and inadequacies in public administration have tended to buttress ancient "dualistic" entrepreneurial traits. An example

(34) Nieuwsgier, op. cit., February 8, 1955.

(35) H. T. Chabot, in Indonesië, Vol. 8 (1955), pp. 45-46.

(36) Higgins, "Economic Development of Underdeveloped Areas: Past and Present", op. cit., pp. 792-793, makes much of the fact that familial clan obligations may "dilute" the "incentive to work harder or longer" or "to save" on the part of the producer in an underdeveloped country. Higgins forgets that this would only be the case if the producer felt these obligations as an undesirable burden; that is, if for him the obligations had lost their value and meaning. Where the traditions of filial piety still prevail, such obligations would be regarded as "normal", because a fundamental feature of the culture pattern. Higgins also overlooks the "sanctifying" function of the obligation itself, as was illustrated in the case of Nadjamuddin.

(37) See Benjamin Higgins, Economic Stabilization and Development in Indonesia, Data Paper, 12th Conference of the Institute of Pacific Relations, New York, 1954, pp. 12-13.

is the prevalence of excessive liquidity which touches the whole financial aspect of economic development in Indonesia. Despite the large number of institutions designed to mobilize savings and extend credit in Indonesia today, "the channeling of voluntary savings into investment has been virtually nil."³⁸ Inflationary pressures, an unstable gold reserve, fear of monetary purges, increases in circulation, corruption, and lack of confidence, have all undoubtedly contributed to this condition. Together with stringent controls on the import of consumer goods, they have tended to produce a marked preference for safety deposit boxes, for vaults, and for keeping money in cash, not the least in order to evade the scrutiny of tax collectors. This liquidity seems to exist primarily to facilitate instant conversion. Moreover, the inclination to invest savings in real estate and in movables is as strong as ever. At the same time, the government is made to bear the major burdens of financing developmental projects, and the "ratio of savings mobilized through the banking system (defined as savings or time deposits) is alarmingly low, even when compared to other underdeveloped countries."³⁹ The unorganized money market in Indonesia, the world of the Chinese or Arab lenders and their usurious rates, has scarcely been attacked in its vitals; despite the credit facilities of peasant cooperatives and government lending agencies, the peasant or the small trader still depends primarily on private lenders. The parasitic nature of the Indonesian entrepreneurial group is perhaps nowhere so well illustrated than in the money market, where private funds for long range developmental projects are virtually lacking, where the government's fiscal authority is unable to cope with tax evasion and the businessman blithely turns to government banks for more and more credit. A good illustration of the whole problem was recently provided by the Indonesian importer who requested credit from the government's Bank Negara Indonesia because he had been able to obtain a government contract worth millions of rupiah and who, when questioned by bank officials concerning his assets, was able to show only a typewriter and a hotel bill for the room which he used as office.⁴⁰

Distrust of the government's fiscal procedure, fear of monetary purges, excessive liquidity, and hoarding of cash in order to facilitate swift conversion into real estate and movables (traditionally gold and silver objects, today also watches, cameras, lighters, and other gadgets)--these are part of the old dualistic economic world in Indonesia. Whether the fiscal and economic life of the country is far from healthy as a result of these dualistic traits, or whether present fiscal instability and economic chaos has produced or augmented the dualistic traits, has long been a moot question. Apprehension concerning the government's fiscal and other public administration procedures reflects ancient distrust and anxiety about the tyrannical arbitrariness of nobility and court, and, not the least, anxieties about the capricious changes in levies during the colonial period. As has been shown elsewhere,⁴¹ the marked preference in Indonesia (as in other underdeveloped countries) for investment in real estate and movables is influenced by traditional aristocratic cultural values, and by the traditional "capital enmity" so typical of the dualistic agrarian society. Much of this distrust stems from ignorance, of course, but much of it is also part of an ancient heritage of values heavily influenced by the life of the ancient

(38) Douglas Paauw, "Financing Economic Development In Indonesia: Public and Private Mobilization of Voluntary Savings", *Ekonomi dan Keuangan Indonesia*, Vol. 8 (1955), pp. 199-215. I have relied heavily on this article for data in the present paragraph.

(39) *Ibid.*, p. 209.

(40) Java Bode, *op. cit.*, November 11, 1954

(41) van der Kroef, "Entrepreneur and Middle Class in Indonesia", *op. cit.*, pp. 297-325.

feudal gentry and the self-contained agrarian commune. Only when the traditions of the latter have wholly disappeared is the road clear to modern fiscal stability in economic development.

III

One of the most alarming developments in post-revolutionary Indonesia is the vastly increased number of persons who have become virtually entirely dependent on the state for the fulfillment of their needs, from their livelihood to the satisfaction of their ambition and ideals. Like many of the parasitic entrepreneurs, countless Indonesians, educated, skilled, or not, have turned and continue to turn to the government to meet their wants, with a consequent diminution of the area in which private initiative, skill, or acumen can contribute to the reconstruction of society and economy. There can be little doubt that the bureaucracy of the state has enormously expanded since the colonial period. Parliamentary deputy and former cabinet Minister Jusuf Wibisono recently estimated that the number of government officials now fluctuates between 900,000 and a million, as compared to 140,000 in the colonial period.⁴² According to Wibisono's estimate, the bureaucracy could be reduced by at least a third. In the opinion of former Communications Minister Roosseno, there is a surfeit of officials in the government-owned railroad system ("more meat than brains", as Roosseno expressed it picturesquely): there are 12 officials for every kilometer of rails.⁴³ In the army an identical problem is to be encountered. Vice President Hatta has stated that the number of dependents of military personnel increases daily with a corresponding increase in expenditures.⁴⁴ Periodically, efforts at curtailment of the size of the bureaucracy are made, but few have met with any lasting success so far.

Several factors underlie the growth of the bureaucracy. There is, first of all, the public administration needs of a state, which like Indonesia, is committed to bestow on its citizens all manner of welfare services. The shortage of physicians, lawyers, and engineers is staggering, and the handful of graduates of professional schools almost invariably enter government service. In June 1955 the Minister of Health declared, for example, that in the first five years of Indonesia's independence (1950-1955) the country's three medical colleges had graduated 55 physicians--all of whom are now at work for the state in various branches of the government.⁴⁵ There is a second and more significant cause, however, and that is the influence of the idea of the state as the symbol of the country's revolutionary nationalist tradition. Especially for the "pemuda" (younger generations), for whom the colonial era is a dim childhood memory, the state and service to it represent the focal point of youthful ideals and enthusiasms. Revolutionary nationalism has endowed the state with an almost charismatic character, with which the younger generation in particular has identified all its aspirations. In consequence, the improvement of individual or mass is seen primarily as a state function; hence the intense, idealistic interest of even the very young in politics. Independent of the omnipotent, all-regulating state, welfare and progress are held to be difficult if not impossible to achieve. Party politics therefore justifies itself by the same charismatic concept of a

(42) Java Bode, op. cit., February 4, 1955.

(43) Ibid., September 9, 1954.

(44) Nieuwsgier, op. cit., March 4, 1955.

(45) Java Bode, op. cit., June 9, 1955.

new national state, and this has not failed to leave its imprint on the youth of the land. For example, Governor Ruslan Mulhardjo of Central Sumatra province has told of a recent visit to a school where he asked a sixth grader what he planned to do when he graduated. "Have high ideals", replied the boy. Annoyed, the Governor exclaimed: "That now is the consequence of playing with political slogans. Even youths are parroting them."⁴⁶ Ruslan's impatience may be justified; yet without some idealization of the state and public service on the part of Indonesia's youth, the task of reconstruction undoubtedly would be that much more difficult. By the same process, however, public service has often become the direct road to riches; party leaders, police officials, department heads, army commanders, civil servants--all may, and have, used their position to enrich themselves in a questionable way. The recent revelation of the corrupt dealings of Djody Gondokusumo, former Minister of Justice in the Ali-Ariffin cabinet (1953-1955), has shown how closely public authority and personal enrichment by illegal means can and have become related. Moreover, the process of élite "solidification", described elsewhere, has meant that an ever closer fusion is taking place between political leaders and government officials on the one hand, and the parasitic entrepreneurial element on the other.⁴⁷ For both groups "public service" has brought undreamed-of opportunities for personal gain.

However, the continued identification of the educated and the skilled with state employment also has a cultural-historic origin which the processes of revolutionary nationalism have brought into greater prominence. Learning and public power have traditionally always been joined in Indonesian life: scholars and clerics were the legitimizers and sanctifiers of public authority and the interpreters of law, written and unwritten. With the rise of the national state and the decline of traditional aristocratic patrimony, learning assumed a place of even greater prominence: the machinery of modern government demanded skills that could be acquired by every intelligent person, regardless of personal background. To be educated came, therefore, to mean first of all an opportunity to become a member of the new "kraton" (court, center of government) of the state, with all the prestige that it entailed. Jef Last, an outstanding Dutch Socialist author, who at the invitation of the Indonesian government recently taught for some time in a high school in Bali, has described the function of education in relation to bureaucratic employment succinctly:

One could say that slowly the bureaucracy is becoming a new and more powerful Kraton and for the first time a commoner, when he can study, gets the chance to penetrate into the Kraton. One could say that to study and become an official constitute the only Messianic expectation of a people otherwise doomed to misery for centuries.⁴⁸

The parents of the commoner boy are not interested in what must be studied, so long as the latter becomes an official as quickly as possible, continues Last. Once the boy has attained his government berth, it is expected that he will use his influence to help his family in every way, get his brothers and sisters jobs, provide for his parents, etc. In most cases, writes Last, the boy will consider this quite normal, for gratitude and respect toward the parents are traditional virtues of the Indonesian child. His sense of solidarity is quite strong, "but it is limited to the group in which he has grown up and does not extend itself to a general love of mankind".⁴⁹ This tradition of filial piety at one and the

(46) Nieuwsgier, op. cit., October 28, 1954.

(47) See my "The Changing Class Structure of Indonesian Society", American Sociological Review, forthcoming.

(48) Jef Last, Bali in de Kentering, Amsterdam, 1955, p. 35.

(49) Ibid., pp. 35-36.

same time goes a long way in explaining why the intelligentsia and semi-intelligentsia annually flock in droves to government offices to seek employment, why public and political pressure have forced various cabinets to expand the bureaucracy beyond manageable limits, and why nepotism has become such a major problem in Indonesian public administration.

The adverse consequences for economic development of this continued absorption by the state of those with education and training are self-evident. Private enterprise and the independent professions are deprived of many of Indonesia's most promising graduates, and demands by the government that foreign firms "Indonesianize" their staff has frequently meant enforced employment of the unqualified and the unskilled. An intelligentsia free from state control and political cabals and active in the development of the country in a way which gives maximum deployment to its abilities and assets--this is a major unsatisfied need in Indonesia today. The excessive bureaucratization is exacting its toll of initiative and entrepreneurship. To cite Last again: "Still more offices of all sorts of government services are being opened in Bali, but while one is apparently trying to move in the direction of a bureaucratically-led welfare state, the means for which are lacking, everywhere self-activity and self-government of citizens in their villages and water counties have become paralyzed."⁵⁰ Partisan politics has, moreover, penetrated more and more deeply into bureaucratic appointment procedure as the state services themselves have expanded. In consequence, economic development is also rendered more difficult. An example is the situation in Indonesian maritime transport. The general secretary of the Indonesian association of shipping companies recently pointed out that because of political partisanism honest and able employees are increasingly disappearing from the state shipping companies, while the rivalry between government departments and the time-consuming character of bureaucratic procedures force costly delays or even indefinite postponement of solutions of important maritime problems.⁵¹ Excessive bureaucratic red tape, due to the often incredible multiplicity of policy-making government offices, has, according to a recent report, also severely handicapped the government's industrial development program.⁵² State controls also tend to hinder local development. The lack of meaningful local government, especially in fiscal matters,⁵³ has aroused apathy as well as mounting discontent. Where private initiative and skill has contributed to economic development, especially in such areas as Central Sumatra, East Java and South Sulawesi, one has the impression that it has succeeded in spite of, rather than because of, the government.

In this connection, it is to be noted that there is a curious ambiguity in economic planning in Indonesia. By constitutional directive, supported by traditional collectivist cultural traits and the pronouncements of a majority of Indonesian political leaders, some form of "cooperative" (i. e., collectivist)

(50) Last, *op. cit.*, p. 42.

(51) Nieuwsgier, *op. cit.*, August 10, 1955.

(52) Cf. Institute of Economic and Social Research, *op. cit.*, pp. 719-720.

(53) Compare Douglas S. Paauw, "The Role of Local Finance in Indonesian Economic Development", *Ekonomi dan Keuangan Indonesia*, Vol. 8 (1955), p. 2: "On Java, domination of local fiscal processes by the Central Government has tended to stifle the local urge for development. In the outlying provinces, where interest in local improvement is strong, attempts at central domination of local functions has produced resistance leading to independence from Central Government control".

economic structure is to be established in Indonesia.⁵⁴ This is not just a theoretical fancy: Vice-President Hatta recently declared, for example, that "too few leaders realize that the provisions laid down in Article 38 of our Constitution must be implemented: that it is not written to deceive the people and to disguise hypocrisy. Article 38 of the Constitution lays down--I repeat, lays down--that 'the national economy shall be organized on a cooperative basis'. It lays the stress on cooperation: no more, no less."⁵⁵ Yet stringent efforts have been made to develop a special and favored class of private Indonesian entrepreneurs, even to the extent of severely discriminating against or restricting Chinese and Western business interests, who provide the country not only with a major share of its revenues but also constitute the major source of private capital for possible developmental purposes.⁵⁶ And, paradoxically, excessive bureaucratization and state controls have also tended to hamper full deployment of other developmental potentials by Indonesians themselves. Thus the Indonesian government appears to be interested in promoting a group of private capitalist entrepreneurs whose favored treatment suggests an extremely capitalistically-oriented public philosophy, while other capital and entrepreneurial interests of foreign origin find their position made very difficult and public officials from the President on down extol the virtues of collectivism. In all this confusion there is but one certainty: the widening area of regulatory powers of the state and its hypertrophied bureaucracy.

IV

It has been argued that the major social and cultural impediments to Indonesia's economic development today stem from a combination of traditional (including "dualistic") traits re-enforced by the effects and popular expectations of a successful nationalist revolution. Low labor productivity, entrepreneurial parasitism and excessive bureaucratization and state control--all of these reflect in some measure this unique, if deleterious, combination of tradition and innovation in Indonesian life today. Viewed in this light, much of the Indonesian Revolution has had quite a "reactionary" effect on economic development. The hope of nationalist leaders that freedom from the oppressive burdens of colonial control would also mean the liberation of the forces of development locked within land and people has thus far been realized only to a minimal extent.

At the same time, it must be admitted that the more spectacular reverses in Indonesia's economy in recent years--the declining gold reserve, the dangerous

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- (54) The combination of historic and socio-economic factors underlying the collectivist orientation in Indonesian public life has been described in my Indonesia in the Modern World, op. cit., Vol. 1, Chap. 3, passim.
- (55) "How Far Have We Got?", message and radio address by Vice-President Mohammad Hatta on the occasion of the IVth Cooperatives Day, July 12, 1954, Ministry of Information, Djakarta, 1954, pp. 14-15.
- (56) Because of this inhospitable climate, foreign capital remains reluctant to expand investment in Indonesia. Instructive in this connection are the recent remarks of Dr. Wallace Cake, vice president of the U. S. Rubber Corporation, who spent more than 20 years in Indonesia. Cake declared that although a considerable increase in world demand for Indonesian rubber was and is anticipated, rubber production in Indonesia has declined and that the present political situation did not warrant implementation of plans for additional investment and increased exploitation. Recent investment was more intended "to keep up the morale of the staff". Nieuwsgier, op. cit., August 9, 1955.

increases in the money supply, the unstable balance of trade, the haphazard development of larger industries, the mismanagement of fiscal controls, etc.-- have often tended to obscure the quiet, small scale, but nonetheless real, advances in production and development, such as the expanding volume of rural industrial production, the growing strength of some (by no means all) peasant exporters and distributors (e. g., copra, pepper, tobacco), and the ingenuity, foresight, and stamina of many Sumatran entrepreneurs, especially in the fields of construction and transportation. The foreign observer in particular is apt to overlook these, not the least because of the vast differences in developmental achievements between the various provinces and regions of the country. The contrast in this respect between, say, West Java and Central Sumatra provinces is, virtually, one between night and day. Since there is so much that gives grounds for justifiable pessimism, these modest, though not inconsiderable achievements, of the past decade deserve all the more emphasis, if only to give notice that the impediments to economic development sketched above are surmountable. On the recent occasion of the 10th anniversary of the proclamation of independence, the Dutch Djakarta daily Nieuwsgier, which certainly cannot be accused of blind impartiality to the nationalist cause, put the matter this way:

Who ever would make up the balance on the basis of dry statistics alone would probably come to a particularly disheartening conclusion. Which would only prove once again what relative value statistics have. They cannot give expression to the imponderables. They say nothing about the self-realization of a free people, nothing about the enormous effort of so many people whose work does not get into the limelight, the devotion of so many, who often in exceptionally difficult circumstances, do more than their duty--in short, about the effect of the forces of national pride and love for country and people, which have been activated by the attainment of independence--by the realization that one is now serving Indonesia and no longer a foreign ruler.⁵⁷

Justus M. van der Kroef

Lake Serene, Washington

(57) Nieuwsgier, op. cit., August 16, 1955.

RELIGIOUS BELIEF AND ECONOMIC BEHAVIOR IN A CENTRAL JAVANESE TOWN:
SOME PRELIMINARY CONSIDERATIONS

Since Max Weber's *Religions-Sociologie*, interest in the relationships between religious commitment and economic behavior has been an important theme both in economic history and in the sociology of religion. The broad relationship he postulated between certain kinds of religious ethic and certain types of economic practice has proved as stimulating as it has proved elusive, and the grand over-all approach which Weber used, the correlation of social structures and religious systems for whole civilizations over the entire course of their history, has left many contemporary students both with a conviction that Weber's basic insight was at least in part valid, that there was "something in it", and that it was nevertheless extremely difficult to tell in a particular situation what it meant, to "pin it down" in terms of specific times and places and to account for the embarrassing number of mixed and marginal cases with which it seemed unable to deal.

As a result there has been a tendency, particularly in the United States, to turn to more specific analyses, to deal with smaller social units, less generally considered religious systems, and shorter periods of time, to see whether one might elucidate the relationships involved more precisely. With the post-war appearance of the problem of economic development in the so-called "underdeveloped" countries as a major practical and theoretical concern, interest in more explicit statements of functional interdependence between economic and non-economic aspects of social behavior has become even more intense. At the same time, it is coming to be realized that the industrial revolution as it takes place in these countries, with their varying resource patterns, population sizes, and geographical locations, may not simply replicate the pattern that the revolution took in Europe, especially since the underdeveloped countries, unlike the forerunners of European industrialization, exist in a world already partially "developed". The simple application of European experience to such new situations is unlikely to prove adequate, and much of the Protestant Ethic and Spirit of Capitalism theory may have to be not so much discarded as refined and reformulated.

It is in such a context that this paper is presented: it is an attempt to lay the ground work for a full analysis of religious belief and economic behavior in a given town in East Java, Indonesia. It is preliminary, heuristic, and not intended as a thorough analysis of the situation: it is intended to provide a model for such a thorough analysis and to indicate, if but dimly, some of the results such an analysis might produce.

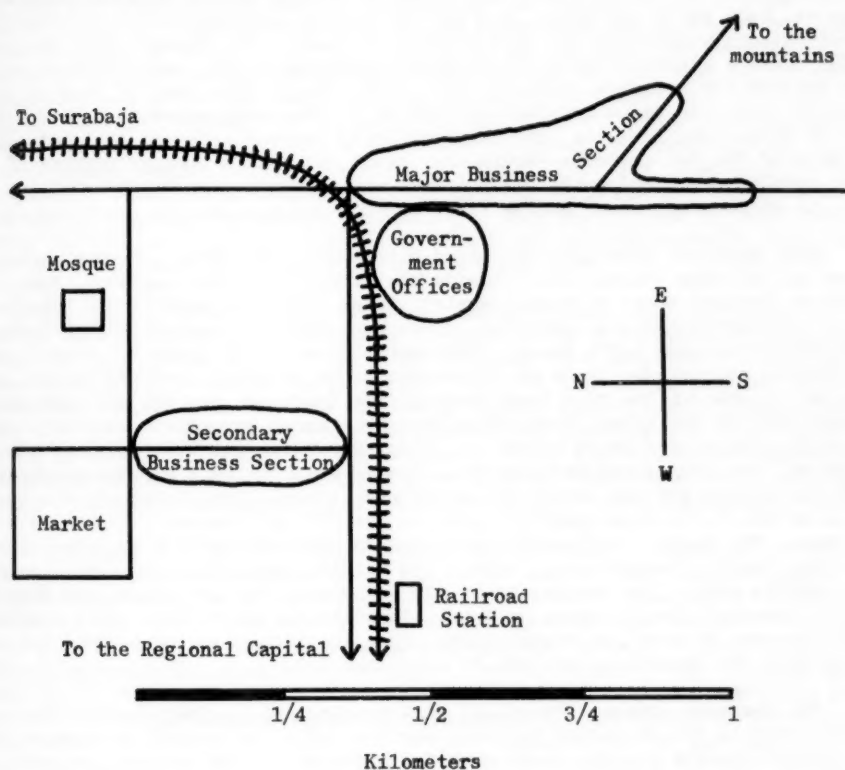
I

Modjokuto, a small town in East-Central Java studied by the writer in 1953-1954,¹ lies at the extreme eastern edge of a great irrigated rice plain through

- (1) The town name is a pseudonym. The field work period ran from May 1953 until September 1954, with a two-month gap in July and August of 1953, and was undertaken as part of a cooperative project of six anthropologists and a sociologist under the sponsorship of the Center for International Studies of the Massachusetts Institute of Technology. A full description of the town, prepared by the entire project, is in the process of preparation. I wish to thank Robert Jay and Neal Smelzer for comments on an earlier draft of this paper.

which a rambling, circular swinging river flows northward towards the Java sea. A half-day's drive from Surabaya, the Republic of Indonesia's second city and best port, Modjokuto marks the point at which the flat, fertile countryside begins to tilt upward toward the cluster of active volcanoes which tower over it to the east and whose periodic eruptions provide much of its fertility.

A commercial, educational, and administrative center for eighteen surrounding villages, the town has a population of almost 20,000, of whom about 18,000 are Javanese, 1,800 Chinese, and the remainder a handful of Arabs, Indians, or other minorities. Its spatial form is determined by the juncture of three poorly paved, secondary roads: from Surabaya, the provincial capital; from the regional capital fifteen miles to the west; and from a large inland city on the other side of the eastern mountains:



The town is surrounded on three sides by thousands of small mud-walled rice fields, most of them not more than twenty-five yards square. Flooded in the rainy season by means of an age-old irrigation system of gullies, springs, and water traps, improved by Dutch-introduced cement dams and steel sluice-gates, these fields are cultivated almost entirely in rice for six months of every year. In the dry season, which is pronounced in East Java, the land does not lie fallow but is planted in maize, soybean, peanuts, onions, peppers, or yams--usually two or three of these in turn. Almost all land holdings are small--under three acres--and although there is, particularly near the town, considerable share-crop tenancy, the landlords involved are neither absentee nor are their holdings any larger, with one or two not so very dramatic exceptions, than those of the peasants themselves.

On the fourth side of Modjokuto, the southwest, lies either forest or dry, broken, largely unirrigable land, on which, in the early part of this century, an extensive plantation system, in coffee, rubber, and sugar, was built up. Dutch-owned, Dutch-managed, and Javanese-worked, this network of plantations and sugar mills had a heavy impact on Modjokuto's economy before the war. As the town was only founded toward the latter half of the nineteenth century, the interaction between the small-scale, intensive, wet-rice farming system practiced by the independent Javanese peasant and the large-scale, extensive, cash-crop estate agriculture of the Dutch has shaped the region's economic history almost since the beginning.

The Dutch are gone from Modjokuto now, their estate and factory system shaken by the depression and shattered by the war and revolution. What remains is a peasantry very used to both money and to foreign goods, tremendous underemployment, both rural and urban, and an overcomplex economic system in which the Chinese minority controls the main streams of trade. The Chinese form the heart of Modjokuto's economic circulatory system, pressing goods, many of them imported, down through its arteries, pulling back goods, the greater part of them agricultural, through its veins and passing them on to the large urban centers for further distribution; Javanese commercial activity becomes relevant only between the ends of the two channels--where they braid out into a complex network of tiny, doubled-over, and marvelously interwound economic capillaries reaching into the small crevices of native life.

Both business districts are lined with small, open-front, wooden stores, almost all of them Chinese run. Inside the stores one finds hardware, home furnishings, various types of food, jewelry, false teeth, automobile and bicycle parts, building materials, textiles, drugs from sulfa to such promising herbs as crocodile tongue and cat's beard. Even more important in terms of economic power, the Chinese control the trade in dry-season crops grown in Javanese fields, and their mills process the rice from those fields (although for the past few years a great part of the actual buying has been done under government contract, and, nominally, under government control). They own almost all the trucking, almost almost all the string-and-bailing-wire jitneys which carry a great proportion (with the busses and the train) of inter-local travel, and almost all the bicycle rickshaws which, Javanese peddled, provide the bulk of passenger transport within the town. The larger small-scale factories in town and outside it--rice, lumber, soda pop, bread, charcoal--are, with a few notable exceptions, in their hands. They own the movie, the theater where the Javanese plays are given, and they manage the carnival when it comes to town. They are prevented from total domination of the economy by only one restriction: they are forbidden, by a Dutch law continued into the Republican period, to hold farm land.

The Javanese stores, almost all of them marginal, number about a dozen, most of them in the secondary business section. But the core of native-run commercial life is the market, where each day hundreds of professional or semi-professional Javanese salesmen and speculators, both male and female, bargain vigorously in a desperate attempt to earn a living or part of a living out of small-scale person-to-person trade. Textiles, daily food supplies, and dry season crops probably form the bulk of the business, but buttons, dried fish, mats, baskets, perfumes, religious books, cooked food and hot coffee, chairs and tables, nails, ready-made clothing, meat, patent medicines, leather goods, parasols, pots and pans--in fact, almost everything portable--are each day passed from hand to hand to someone's (usually small) profit.

In the market you can have your hair cut, your bicycle fixed, and your pants mended while you wait. For an Indonesian quarter you can rent a spot under a tree or a wooden shed and sell cigarettes for a penny more than you just paid for them in a Chinese store across the street. You can buy a basket of corn in the morning and sell it at noon, never leaving the market--getting your profit out

of the slight rise in price which every day takes place as the market day wears on (if you are a friend or a paying acquaintance of the man who runs the scales, you may make something out of the greater weight the corn has when you sell it than when you bought it). Or, for two rupiah a day (and a few hundred capital) you can become one of the aristocrats of the market with a three-meter stall of your own, selling imported and domestic textiles for as much more than they are worth as you can wheedle an unwary peasant into paying. For the Modjokuto Javanese, buyer or seller, the market is the very model of commercial life, the source of nearly all his ideas of the possible and proper in economic behavior.

Aside from petty commerce, three other non-agricultural activities play an important part in the Javanese sector of the economy: simple manual labor, independent craft and repair work, and white-collar office work. The manual laborers, if they find work at all, may be employed by the Chinese in their rice factories, lumber yards, or other enterprises, by the government fixing roads, building irrigation dams, or sweeping streets, or by one of the scattered here today, gone tomorrow Javanese cottage industries. A great many are employed by the narrow gauge railroad which runs four short passenger trains a day from the regional capital through Modjokuto to the main Surabaya line fifteen miles northward. Many too are servants for their richer townsmen, though the departure of the Dutch has markedly reduced job opportunities in this field. The independent artisans--carpenters, chauffeurs, bricklayers, blacksmiths, watchmakers, barbers, tailors--are spread unevenly throughout the town, for they mostly work in their own homes, accepting jobs as they come fitfully to them, and drifting uneasily into unskilled occupations if forced to by economic pressure.

The white-collar clerks, teachers, and government officials form the intellectual and social elite of Modjokuto, inheritors of a political tradition in which the ability to read and write was confined to a hereditary court class, born to rule and venerated for doing so. Many of the old caste marks of the literati are nearly gone now--the variously colored parasols symbolizing rank, the deep bow of the inferior to touch the knee of the standing superior, the proclamation of pedigree through the use of court title, the tongue-tied shame of the peasant in the presence of the government official--but the general attitude of respect and subservience on the part of the uneducated toward the educated remains.

The number of the educated has been rather rapidly increasing of late with the post-revolutionary expansion of the school system. In Modjokuto there are a half-dozen six-grade government elementary schools, a government technical school at the junior high level, three private junior high schools, a government school for elementary teachers, and scattered other private schools including Chinese and Catholic elementary schools. Further, each of the surrounding villages has a school of its own, and there are still a number of old-style religious schools in the area, recently semi-modernized. The result of this sudden florescence of educational activity is that teachers, on the one hand, and advanced students, on the other, form two of the most clearly defined and dynamic social groups within the society, perhaps the two groups least closely bound to the Indonesian past, and whose relationships with the rest of the society are the most ambiguous.

There are two major government offices in Modjokuto, for it is both a district and a subdistrict capital. The subdistrict, the lowest level to which the wholly appointive national bureaucracy reaches, administers eighteen villages all lying within ten miles of the town. The district administers four contiguous subdistricts, including that of Modjokuto itself, and is in turn subordinate to the regional government. In addition, the regional headquarters of the central government police force is in Modjokuto, as are the government pawnshop and the government hospital for the area. Offices concerned with the repair of roadways, the building and maintenance of irrigation systems, the improvement of agriculture and the administration of the market further swell the total of white-collar

workers employed or underemployed by the government, as do the Post Office and the office of the local representative of the Ministry of Religion.

These five major occupational types--farmer, petty trader, independent artisan, manual laborer, and white-collar clerk, teacher or administrator--represent the Javanese population of Modjokuto, grouped according to their economic activity. The crystallized typology of work patterns reflects the underlying organization of the economic system of the town of which it is an outcome. Similarly, the same population grouped according to their world outlook--according to their religious beliefs, ethical preferences, and political ideologies--yield three main cultural types which reflect the moral organization of Javanese culture as it is manifested in Modjokuto, the general ideas of order in terms of which the Javanese farmer, laborer, artisan, trader, or clerk shapes his behavior in all areas of life. These types, being so essentially Javanese, need Javanese terms to name them, terms the Javanese themselves apply: abangan, santri, prijaji.

II

The great majority of Modjokuto Javanese pronounce themselves to be Moslems. Within this more general category, however, they make a clear distinction between the santri, the pious Moslem who takes his Islam seriously and attempts to keep it free of local adulterations, and the abangan, whose main adherence is to what is often miscalled "the Javanese religion" (agama djawa). To understand this "Javanese religion", one must understand its history, for abangan beliefs are the outcome of a centuries-long synthesis of animistic, Brahman-Buddhist and Islamic belief within the strictly organized, comparatively self-sufficient agricultural village of pre-twentieth century Java. They are a symbolic reflection of the demands of simple rural living, a balanced mixture of native conceptions and foreign suggestions, nicely adjusted to perpetuate a relatively undifferentiated social system without serious change and without widespread individual dissatisfaction within an environment unmarked by sharp variation in economic conditions.

The abangan world outlook views the individual human being as but a small part of a wider natural-social world, and social prescription is felt to flow directly from metaphysical necessity. The order of social life is fixed because it is a part of a general order of nature, which, mysterious as it may appear in some of its aspects, is ultimately regular and invariant. For the fully adult Javanese peasant, man, his society, and his natural environment strike a harmony almost mathematical; children, madmen, simpletons, foreigners, and rebels are "not yet human" because "not yet Javanese". To "be human" is to be Javanese, to submit to an unusually precise system of social and linguistic etiquette which constrains individual behavior into patterns emphasizing inter-familial cooperation, emotional restraint, orderliness, and self-effacement. These are the values religious ritual and belief dramatize and those which control everyday behavior in each area of the common life. For the most part, Javanese village life tends to be cooperative, quiet, predictable, and colorless.

The religious elaboration of the abangan outlook includes agricultural ceremonies, folk tales, curing practices and a theory of disease, witchcraft, numerical divination systems, rites of passage, and a belief in spirits; but the central ceremony in the traditional Javanese religious system is the communal feast, the slametan. The slametan and the beliefs surrounding it not only draw together all of these separate strands of abangan religion, but they provide both a clear picture of the way in which Indian and Islamic elements are blended with local concepts in traditional Javanese ceremonial and an example of the manner in which this ceremonial strengthens the central values of village society.

Slametans are given on almost every occasion which has ritual significance for the Javanese: pregnancy, birth, circumcision, marriage, and death; calendrical

Moslem holidays such as Lebaran and the Prophet's birthday; to prevent illness, witchcraft, or theft; as harvest ceremonies; when one is to go on a journey, change one's residence, or begin a new enterprise; and, annually and communally, to pacify the village guardian spirit. But although the details vary--the foods served, the words chanted, the associated symbolic acts and objects--the general form and purpose of the slametan is invariant. It is a sacred communal feast of close neighbors designed to insure the general well-being (slamet) of all those who participate, most particularly of the host.

Slamet, being untranslatable, has been variously translated: well-being, safety, health, prosperity. What it actually indicates is a state of stasis, a state in which, literally, "nothing happens" to one (gak ana apa-apa). To be slamet is to be safe, in the sense unbothered by either natural difficulties or supernatural annoyances. It indicates a kind of abstract well-being marked only negatively by being free of extraneous and disturbing influences from this world or the next. In the slametan, the Javanese asks not for joy, for an increase in wealth, for excellent health, but merely that nothing should happen to upset or sadden him, to impoverish him, or to make him ill. He does not request the spirits to do anything for him, but merely pleads with them that they do nothing to him--he seeks a tranquil independence of natural and supernatural contingency. When I left Modjokuto, the mother of the Javanese family with whom I had lived did not wish me a pleasant, comfortable journey and great success in my future life, but said she hoped I would get home without disaster and urged me to repeat slamet, slamet, slamet, over and over again during the whole trip so that nothing would happen to me.

If a man wishes, for whatever reason, to give a slametan, he will usually hold it in the evening just after sunset. He will call in all the male neighbors in the houses immediately surrounding his own, notifying them of the event only a few minutes before it is to take place. They assemble immediately, squatting in formal Javanese fashion on the floor along the edges of the main living room. In the center of the room is the food which the women of the house, now concealed in the kitchen, have spent the whole day preparing. The food is much more elaborate than the daily fare--rice pyramids, cooked meal dishes, various special kinds of vegetables, meats, fishes, most of them bearing some symbolic significance.

After all are gathered, the host (or some aged man appointed by the host) makes a very formal speech in high Javanese. He states the reason he is giving the feast, requests God, the spirits, and some Hindu deities thinly disguised as Moslem saints not to "bother" him or his family, describes the meaning of the various foods and the purport of the ceremony, and thanks his neighbors for coming, begging their pardon if anything is lacking in his preparations or if he has been in any way impolite. Then either he himself if he is able, but more usually one of the guests who has been to a religious school, recites a prayer in Arabic which neither he nor his auditors understand. This person chants for a few minutes, while the assembled guests hold their hands out, palms upward, in Islamic supplication and murmur "amen" at appropriate points. When the prayer is complete, the food is dished out by one or two of the guests. Some of each type of food is put into banana leaf dishes and handed to each individual, with the exception of the host, who does not eat out of politeness' sake. The host bids them eat, and they each take four or five small handfuls, gulping the food in the quiet, hurried, embarrassed manner typical of the Javanese. Within five minutes they excuse themselves, wrap up the remainder of the food, and take it home to share with their families. With this the slametan ends, and the incense which has been burning since its beginning may be extinguished. What has happened is that the spirits have eaten the odor of the food, the humans merely its substance. Hopefully, both are satisfied.

This brief, undramatic, formal, and almost furtive little ceremony is but a micro-model of the wider social order, a religiously distilled essence of the

ethical "oughts" with which, in the secular life, the Javanese attempt to coerce both inner needs and environmental pressures into human patterns. In the slametan the dependence of neighboring individuals upon one another and upon the crops of their fields is symbolized, and the necessity for inter-familial cooperation, behavioral predictability, and de-emphasis of individual peculiarities are underlined. What food the group has is shared equally, whatever deep-going emotions the participants feel are carefully concealed under a bland exterior, and everyone is committed to a politely genteel behavior which can provide no surprises for anyone else. All are united in the fervent wish that the environment, personified in spirits and gods, will provide no surprises either--that all will be regular and that "nothing will happen".

As in any society, these ideal patterns of behavior, religiously consecrated or not, do not always get applied to actual behavior with undeviating firmness: Javanese, too, are often stingy or quick-tempered, and they have been known to forget their manners on occasion. In the traditional village it seems likely that this happened rather less often than it does in either the present day village or, most particularly, in a semi-urban community such as Modjokuto. These ideal patterns are the result of a constant adjustment of ethical prescription, social organization, and technical development to one another over a long period in which change on all sides was slow and undramatic, and so the fit between them and actual practice probably grew rather close and precise by the middle of the nineteenth century. However that may be, the marked and rapid economic and social change in Java this century has thrown them rather suddenly into a social environment to which they seem to be much less suited.

The results have been various: cultural backsliding on a wide scale, what has come to be called anomie; the development of new types of ethic based either on adoption of culture patterns external to the system or on differentiated parts of the traditional system reorganized to function more adequately in the new context; or, finally, a more or less compulsive clinging to the older patterns with only minimal adjustments to changed circumstances. It is this last result that the abangan pattern in Modjokuto represents, and its economic implications are discernable in all the main aspects of economic life in present day Modjokuto--in agriculture, in petty trade and craftwork, and in what scattered small-scale industrial organizations Javanese entrepreneurs have been able to set up in and around the town.

III

The traditional Javanese agricultural system was one in which the chief technical problem to be faced was that of labor organization. With a relatively small population (at least up until the time of the Dutch forced culture system in the mid-nineteenth century, a period from which nearly all rapid economic change in rural Java can be dated) a remarkably fertile volcanic soil and an adequate water supply, neither access to land nor questions of the differential employment of capital were serious issues. The central issue was how to organize the comparatively large rural labor force needed to work wet rice in irrigated terraces.

To meet this problem, there came to be built up a set of land and work distribution mechanisms by means of which intensive labor could be brought to bear on particular fields at the necessary points in time, as well as mechanisms of communal distribution of the harvests from these fields, which would be able to maintain individual subsistence in periods of low labor demand. Complex land-ownership rotation systems, communal work requirements, elaborate reciprocal labor lending customs among both kith and kin, sharply defined rights to work on lands of one's relatives, and specifically outlined payments in kind for specific contributions of labor made possible an agricultural system demanding periodic applications of intensive labor from a relatively small and immobile population.

The abangan village came to be comprised of a group of approximately equal status subsistence farmers, each with more or less identical political, social, economic, and religious rights and duties, all locked together in an intricate system of mutual aid and assistance in order to make efficient wet rice agriculture possible. The remarkable characteristic of traditional village agriculture in Java--aside from the double growing season--was (and is) the narrow margin between overpopulation and underpopulation. With the given techniques (of which a good example is the method of harvesting rice stalk by stalk with a knife the size of a razor), the number of people required to open a new wet rice field and work it adequately nearly equaled the number who could subsist from its output at a level the peasant would accept as decent, and both numbers were rather large.

In such a situation the tendency will be to provide for small increments in population by increasing the intensivity of the cultivation rather than by extending cultivation to new lands, thus slowly narrowing the gap between over- and underpopulation still further. In any case, the possibilities of absorbing a larger population through bringing more land into wet rice cultivation was limited in Java from the beginning because tropical land untreated with volcanic ash is rather infertile, and much of the southern part of the island is porous limestone. In addition, the peculiar form in which the Dutch cast their economic impact upon Javanese rural society further stimulated both population growth and the tendency to absorb that growth through increasingly intensive farming. By attempting to force Javanese peasants into producing export crops on their own lands in their own manner, rather than introducing a self-contained plantation system complete with imported labor (as the British did, for example, in Malaya), the Dutch both sharply stimulated Javanese population growth and provided the agricultural means, through introduction of new plants and growing methods from their own intensive farming background, for greater intensification of traditional Javanese farming.

But, intensification, too, has its limits, and so the Javanese village has come into this century with a rapidly increasing population, now clearly too great for its agricultural foundation, a set of values which commit those who hold them to a communalistic rather than an individualistic approach to economic problems, and methods of farming no longer able to increase output significantly. Unable either emotionally or technologically to reorganize agriculture on an extensive plantation basis, and unable too to increase output through further intensification, the abangan has been forced to solve his population problem by lowering his standards concerning what he will accept as a decent level of living for one of a set of equally privileged peasants. Rather than the rapid concentration of wealth and the formation of an impoverished, alienated rural proletariat as one finds in so many other "underdeveloped" areas, we have had in East and Central Java a process of near equal fractionization of land holdings and of the wealth which they represent. Thus the farmer has been able, by and large, to maintain his religious, political, social, and economic equality with his fellows, the the level of living of all concerned has sunk.

This general pattern of response to a worsening economic situation through a division of the economic pie into smaller and smaller pieces might well be called "shared poverty". The abangan, committed to world outlook which emphasizes a close interdependence among separate families in the same village, tends to share food equally when he has it and share its absence equally when he doesn't have it, not out of a general commitment to humanitarianism or to cooperation as such, but out of a traditionalized mode of solving problems. Java's twentieth century impoverishment lacks some of the tense drama and spectacular injustice of countries with great wealth differences and large-scale landholdings, but the impoverishment is just as real, and so, ultimately, is the injustice; it is merely that Javanese do all things quietly, subtly, politely, and communally--even starve.

IV

The effect of this "shared poverty" pattern is clearly evident in Modjokuto. In the village at the edge of town in which I lived, somewhat more than half of the peasants were nominally landless, yet even with the relatively heavy urbanization, the long contact with foreign influences, both Dutch and Chinese, not more than 10% of the land was held by individuals non-resident in the village itself, and there was only one landholding which could be called at all large, and it ran only to about 30 acres. Almost all the rest of the holdings were between one and three acres, and yet a large proportion of these small holdings were sharecropped on a half-half basis.

Actually, the relationships between nominal ownership of the land and working of the land were enormously more complicated; both sides of the equation were usually further fractionated. The owner might rent the land to one man. This man would then find a tenant to work it for him on a half-half basis (actually, the system of tenant payment was rather complicated and varied according to location and type of land, responsibility for various capital equipment--most particularly seed--length of time tenant and landlord had been associated, and the like; but the half-half arrangement was both the norm and the mode). The tenant in turn would then subcontract out blocks of the work on either a cash payment or a further share arrangement. A man and his womenfolk might be found to plant, weed, and harvest for 1/5 the crop; a man and his oxen might be hired to plow for 150 rupiah, and the harvest was always accomplished by a mass of people, each receiving 1/10 of what they harvested as a share. Thus the fractionization of output of these small pieces of land grows to rather fabulous proportions, with a whole series of people making a poor living rather than one or two making a good one.

Further, there is a strong moral obligation on a man, particularly if he has a job in town or if he has more than two acres or so, not to work his own land but to hire a tenant. The one large landholding is split into small holdings and tenanted out, even though the owner admitted that a foreman-worker system would have been far more efficient. The reason given was that if a labor system were used the tenants in their revenge would destroy the harvests or steal them, as they had on a number of other occasions when land was worked on a foreman system. The tenant too was obligated to farm out certain blocks of the work, particularly to relatives, and even if he paid wages in cash, the amount of the wages was tied directly to the amount of rice it would buy so that there was, in many cases explicit and conscious, an attempt to maintain a "fair shares" relationship in terms of the output of the land in kind between the various claimants to that output. In short, the land tenancy system is, in part, an attempt to replicate rural village patterns in a more urban situation and is supported by the same ethic which had supported those patterns in the simpler past.

Even in the wholly urban, non-agricultural context of the market, the same replication occurs. To understand the Javanese market, one must see it not merely as a specific geographic location at which daily trading takes place, but as a patterned type of economic activity, with its own peculiar formal characteristics, a pattern of economic activity only partly localized in the market proper. Javanese sell things to other Javanese on street corners, in homes, at sidewalk stands, in stores, over a cup of restaurant coffee, on village roads, in fact, everywhere. The market is merely the concentrated center and the visible model of a trading institution much wider than itself, and so when one says "market", one refers to the whole range of Javanese small trading activities.

The goods flow into this "market" from various sources, but very few of them have not at one point or another passed through Chinese hands, and the local products--almost entirely agricultural--come to them in the end as well. Not in all cases, however, are the Chinese involved locally. Much of the cloth is bought in Surabaya by the Javanese directly, from Chinese stores there; a few

larger-scale native traders sell crops directly to urban wholesalers; and Chinese from the cities and larger towns come often to Modjokuto (or send agents) to trade with the Javanese market people.

Once the goods enter the wholly Javanese market complex they do not go directly to the ultimate consumer, but circulate among the professional traders, each transaction nibbling away at the profit margin; the economic return for passing the goods from the large Chinese distributors to the ultimate consumers, small enough in the first place, gets divided among several people. Further, most of the capital these petty traders employ is in the form of credit extended by the Chinese wholesaler, the latter being unwilling to lend cash now that the Dutch are no longer present to enforce contracts. The Javanese trader keeps a running debt balance with the Chinese trader, a balance carefully managed on both sides not to grow so large as to encourage flight on the part of the Javanese and not shrink so small as to leave the Javanese without any control over the Chinese. In sum, the complexity of economic structure for a fairly simple economic function is surprisingly great.

In a sense the same subcontracting pattern which fractionates the returns from land operates here to fractionate the return from retail distribution. The main Javanese traders are those who have debt balances with the Chinese, the larger the balance the Chinese allows the larger is the scope of the trader's activities. But it is only in the exceptional case that the goods derived from this relation to the Chinese go directly into consumer hands. Almost always they go into the hands of other Javanese traders who hold a smaller debt balance with the larger trader. And so it goes all the way down the line. The goods pass from hand to hand, their course regulated by debt manipulations, leaving only a very small profit behind at any point along that course. Again, the moral obligation upon the Javanese trader to cut others in on a good deal shows that this response is not wholly rational, wholly economic, but is supported by a motivational pattern rather deeply ingrained in many Javanese individuals. It is, in fact, the commercial interpretation of an ethic originally created as a response to purely agricultural demands.

Finally, the "industrial" sector of the Modjokuto economy is a very thin reed indeed, but even here one can see the power of the abangan ethic. One of my informants set up a cigarette factory in a shed behind his house. He began with two workers--girls--rolling the cigarettes by hand, in corn sheathes provided by the workers themselves. The factory grew to employ a work force of twenty girls, the number being determined not by economic considerations but by the entrepreneur's and the girls' notions of the "correct" number which should be employed, given the amount of work involved. The result was an extremely uneconomically operated factory. Unable to accumulate enough capital to provide sufficient tobacco to keep twenty girls working even six hours a day at full capacity, the entrepreneur merely apportioned out regulated quantities of the available tobacco to each girl each day, and the girls worked at a very slow speed, producing only 1000 cigarettes in a working day where they might easily have produced 1500-2000.

Instead of trimming his work force to fit the dimensions of his industry, my informant, the entrepreneur, decided--quite consciously--that twenty workers was a "fair" number to employ. If he employed less than this number, the girls would always be demanding he hire a relative or friend of theirs; as soon as the number of workers was "high enough" in the girls' eyes, he could refuse such demands without fear of criticism. He thus increased his overhead and cut his profits (and his workers wages, as they were paid piece rate). The outcome was typical: twenty workers and an entrepreneur made a semi-adequate living, and no one made a good one, with the added consideration in this case that this economically inefficient operation reduced even further the opportunities for the entrepreneur to amass enough capital to increase output and hire more workers. As a matter of fact, the business failed after awhile, and the Javanese entrepreneur fled his Chinese creditors.

So it is that the abangan ethic affects the whole range of economic activity in Modjokuto. In agriculture, in trade, and in manufacturing, it emphasizes and legitimizes a pattern of economic behavior derived from past experience in a different setting; it organizes new experiences in old forms and meets new challenges with old responses. But it is not the only ethic extant in Modjokuto, for not all village Javanese projected rudely into the twentieth century have clung unreservedly to old beliefs, nor, as Java has been civilized since shortly after the time of Christ, has the background of all Javanese been wholly rural. The santri world view reflects an attempt to readjust and reinterpret the village ethic in terms of considerations derived both from foreign religious influence and from a longer experience in trade, and the prijaji world view has grown up in an urban environment focused on the great Hinduized court centers of East and Central Java.

V

Islam, it has been said, lies on Java like a veil, concealing little and shaping nothing; where Hinduism brought a civilization, Islam brought but a religion. The degree to which this aphorism has become progressively untrue over the past fifty years is a measure of the degree to which one can speak of a santri, as opposed to an abangan, world outlook in Javanese society. The self-conscious, religiously sophisticated, exclusivist Moslem is a child of this century, although Indonesia has been nominally Islamic since the sixteenth.

Until the latter part of the nineteenth century, the religious system of Java struck a balance between Islamic, Hinduistic, and animistic elements, in which the man who had memorized a little Arabic, or did his prayers somewhat more regularly, or went blindly and incomprehendingly on the pilgrimage to Mecca, was but a slightly differentiated specialist, useful to chant at a slametan or a death, or to organize the local version of the annual religious tax, or perhaps to provide a particularly exotic and efficacious remedy picked up in some crowded Meccan dormitory. Slightly more well-to-do perhaps, somewhat more serious religiously, maybe, a little more powerfully magically, quite probably, his interest in Islam was but a personal interpretation of the general village beliefs. As his less interested neighbors, his religious concern was both mystical and cabalistic and magical and materialistic; of the Moslem law, theology, and ethics he knew little and cared less. He was but another abangan, going more regularly to slametans than to mosques.

In time, this all changed, but the process by which the present day santri group has come to be rather sharply set off from the non-santri groups has not been a wholly rural one, but rather has found a basis in both the rural and urban sectors of the society. The recent history of Islam in Java has been one of the appearance of a still embryonic rural yeomanry on the one hand, and of a small class of free urban traders on the other, and their increasing inter-relationship legitimized in terms of a common religious bond. Since about 1910 both these groups, the rural and the urban, have been progressively influenced by reformist ideologies streaming out of the great Islamic centers of learning in the Middle East, and so there has arrived upon the Javanese social scene a still small, precarious, and fragile middle class of slightly wealthy peasants, small shopkeepers, and weak independent entrepreneurs, largely comprised of rather pious, self-conscious, aggressive, and often quite religiously sophisticated Muslim modernists.

The rural part of this development owes its existence to the fact that the problems connected with Western stimulated economic change were not always met in the villages by a simple reassertion of traditional values. In many cases they were met, instead, by increasing emphasis on the more Islamic elements of the traditional religious system at the expense of the other elements in the system, together with an attempt to justify a new social and economic ethic in terms of this altered religious emphasis. Two particular Moslem institutions--the system of

rural religious education and the pilgrimage to Mecca--played an especially important role in this process. A shift to increased concern with things Islamic as opposed to things more generally Javanese led to a greater interest in the teaching of a more purely Islamic tradition and the provision of content for such teaching naturally depended upon increased contact with the center of the Moslem world. In turn, the necessity for accumulating wealth to go on the pilgrimage led to economic and social consequences which further strengthened the preference for things Islamic in the group to which they accrued.

Speaking concretely, the financial demands of the ever more attractive pilgrimage induced into the santri family a distinct emphasis on a value the Javanese call gemi. Gemi, which means obsessive thrift, was if anything disvalued by the abangan, who usually despised the santri as a solemn miser hoarding his money merely to gain useless prestige from having completed a fool's errand, but for the santri it was a central concern. For him it was a source of pride to work hard, dress simply, eat sparingly, and to avoid large ceremonial and festival expenditures. A man who by such means saved enough money to go to Mecca for a year or so at the age of fifty or sixty was immensely respected by the rural Moslem community.

Upon his return, the hadji (as Meccan pilgrims are called) became the center for a kind of local cult, for not only was he more holy for his trip, but he was more learned in correct Islamic practice as defined in the capital of Islamic civilization. A local Moslem school (pondok) was likely to form about him as a teacher, in which each morning and evening youths aged six to twenty-five chanted books in an Arabic they did not understand, books brought back to them by the returned hadji who as often did not understand Arabic either. These pondok varied in size from small one-room bamboo shacks where boys came only in the evenings to chant for an hour or so to large stone buildings built on land deeded officially to God, in which the students lived continuously, chanting up to five and six hours a day. In time there would grow up a kind of religious complex of mosque, school, teacher, and students, the latter--many of them come from goodly distances--living ascetically, doing their own housework and earning their way by working in the surrounding fields, either those of the Hadji himself or of other well-to-do supporters of the school.

Now, there have been religious schools of this general sort scattered throughout the Javanese countryside for centuries. In nearly every village there was an old man who considered himself learned in some mystical or magical art, nominally Islamic, who had set himself up as a teacher to his neighbors, and it was out of this general tradition, originally Buddhist, that the santri community elaborated the explicitly Moslem pondok. In an effort to distinguish it sharply from other types of religious schools, which they came to hold as kaffir (a concept of religious exclusiveness rather foreign to traditional Javanese "theology", which, if not always tolerant in practice, was usually relativistic in theory), they created a sub-culture around the pondok which took on a definitely Near Eastern cast. Arabic music, dances, and religious dramatic performances were introduced and Hindu-Javanese art forms rejected; imitation of Arabian clothing and some types of Arabian food became popular; and the young santris developed the kind of cult of body development, strength displaying, and masochistic endurance testing which is so often associated with semi-secret fraternities around the world. The abangans called them Arabs--whom they didn't like either--and said that like their Near Eastern cousins they were interested more in getting rich than religious.

However that may be, this valuation of individual effort, thrift, and simplicity--combined with a tendency to avoid land fractionization and easy accessibility to a labor pool of non-landowning students--did yield the hadji and his supporters a larger personal fortune than was possible for the general run of peasant. The rich hadji, surrounded by a group of satellite landholders and

young laborer students, could build up a system of agricultural production (often with home industry attached) which took the form of a kind of small-scale plantation. For the most part these small plantations, if that is what they should be called, did not grow so very large, nor did the Hadji and his followers become so very rich, at least in the Modjokuto area. But the system had enough of an impact to create a fairly sharp economic distinction between abangan and santri which supported and strengthened the cultural distinction. Almost all the more wealthy peasants around Modjokuto today are santris or sons of santris, and "rich man" and "hadji" are nearly synonymous terms.

The urban side of the santri development may be dealt with more briefly. In the large cities, that part of the distributive trade which was not in Chinese hands tended for a number of reasons to fall into Moslem ones. In the first place, most aristocratic, non-Moslem urban Javanese managed to attach themselves in one form or another to the Hinduized courts and to the colonial bureaucracy, becoming civil servants rather than businessmen. Secondly, up until the second world war the immigrant Arab community played an important role in non-Chinese petty urban trade and consequently had a rather strong ideological impact on the Javanese traders. And lastly, the tradition of Moslem trading, which, in a sense, formed the basis of the Islamization of the archipelago in the first place, never completely died out or got wholly absorbed into the predominantly agricultural Javanese economy. Particularly along the north coast, in such Islamic enclaves as Cheribon-Indramaju in West Java, Semarang-Demak-Kudus in Central Java, and Bondjonegoro-Gresik in Eastern Java, there continued to exist a native commercial tradition associated with an explicit Islamism.

The relations between the peasant Moslems and the urban ones grew more intimate as time passed because of their common ideology, because the Moslem peasants were from the urbanites' point of view more significant economically than the poorer abangans and because, in an attempt to avoid the fractionization of landholding entailed by an equal division inheritance system, some hadjis sent their younger sons into business. In this way, part of the urban santri trade came to be capitalized with rural wealth, and the mutual dependence between the groups increased.

But the gulf remained, nevertheless, quite wide. The urbanites, in closer touch both with the local Arab community and with influences from the Middle East generally, had a far more accurate idea of the actual requirements of Islam than was possible for the more isolated peasants and so tended to look on the latter as at best only half Moslem. Also, the new economic pressures introduced, or at least intensified, by the twentieth century played more directly, at first, upon the trading population than the agricultural, driving their interests apart.

So, while Islam in the countryside remained focused in relatively isolated, independent, and often mutually antagonistic mosque school complexes, a demand arose in the cities and towns for a wider and more closely knit religious movement which could harmonize new economic and political interests with an unadulterated Islamic tradition. The traders found the rationale for such a movement in the doctrines of the Islamic reformers who wrote, taught, and preached in Cairo and Mecca during the latter part of the 19th and early part of the 20th centuries, impulses of whose thought began to reach Indonesia through returning hadjis and immigrant Arabs around 1910. By 1920 a surprisingly large scale "back to the Quran" movement was underway in the larger Javanese cities, a movement demanding economic protection against Chinese competition and political freedom from colonial rule in the same breath with fundamental religious reform.

The reformers centered their attack, insofar as it was religious, not upon abangan beliefs as such, but rather upon the series of compromises with that system which rural and uneducated santris had come to accept as a legitimate half-way covenant. The modernists attacked not only the modified form of the slametan

spirit-pacifying cult these santris had decided was sufficiently orthodox for everyday purposes, but they went so far as to criticize the rural religious school system itself as perpetuating a merely formal worship at the expense of fundamental religious enlightenment. They rejected not only the clearly heterodox Indian mysticism but the nominally Islamic Near Eastern as well. The nearly exclusive reliance upon the secondary religious commentaries of Arabic scholastics and upon the most conservative of the Moslem law traditions, the shafi'ites, they pronounced mere medievalism. Revealing themselves as the true puritans they in fact were, the reformers demanded that all compromises with traditionalised sin and sanctified heterodoxy be abandoned; that a true understanding of the meaning of the Glorious Quran and the Traditions of the Prophet (Hadith)--rather than local habit or medieval Islamic theory--form the basis for Indonesian Islam.

For the slametans at birth, circumcision, marriage, and death, they would substitute simple prayer and contributions to religious foundations and mission work to the poor. For mysticism they could substitute the clear perception of the otherness of God in all his Mid-Eastern majesty, power, and glory and the necessity for absolute submission to and trust in the purity of his will, reflected in the individual experience as predestination. For the pondok and its meaningless chanting they would substitute modern schools where religious subjects (including the translation of Arabic) would be taught side by side with natural science, economics, and history, and where the content of Islam would be transmitted as well as the form. And, for the medieval law book they would substitute a flexible use of the whole of the Islamic tradition--of all four law books and most essentially of the Quran and Hadith unadorned with scholastic fretwork--in an attempt to adjust Islam to the modern world, to make it relevant to contemporary social problems and to build in Indonesia's green and tropical land a true Islamic state--the Kingdom of God on Earth.

The attack of the reformers was therefore inward; it was directed primarily against the rural and more backward part of the santri community itself rather than against the abangan who could be expected to regard it with indifference. It was a genuine attempt at internal reform, at self-purification and the building of a unified santri community and the initial reaction of the rural santris, attacked as they were at their most sensitive point--their religious orthodoxy--was violently antagonistic. From about 1915 to the Japanese occupation in 1942, a sharp ideological struggle took place between a modernist urban group of reformist Moslems, best symbolized by the well-known religious welfare organization Muhammadiyah, and a traditionalist rural group of orthodox moslems, organized into the powerful league of religious teachers, the Nahdatul Ulama.

But the modernists had time, the direction of social change, and organizational proficiency on their side. The traditionalists were forced more and more to copy modernist forms of organization in order to compete effectively. To articulate their own orthodox message they had increasing recourse to such modernist innovations as the Friday sermon in the Mosque, small evening prayer meetings at which religious points are discussed and explicated, travelling lecturers, the translated Quran, and schools organized on more Western lines to provide capable leadership. And so, insofar as the organizational side is concerned, the modernists have achieved a near total victory: even conservative Moslem leaders in Modjokuto today support Western educational forms, socio-religious organizations, and active involvement in everyday affairs by the pious. On the ideological side the victory is less unambiguous; much of rural Islamic reorganization is old wine in new bottles. But, in general, the postwar gap between the urban centered modernists and rural centered traditionalists is much less than it was before the war. If the two groups still do not always see eye to eye on the theological legitimacy of certain details of religious practice and belief, they have grown sufficiently close organizationally to be able to submerge these differences in the interests of a general defense against the increasingly sharp antagonisms of the rest of the Javanese community. The battle more or less won inwardly, the

santris have turned outwardly toward the wider society with their message and have found there an even sharper antagonism.

VI

In the twenties and the thirties the Modjokuto countryside was dotted with pondoks. Ranging in size from ten to three hundred students, many of these little monastery-like institutions formed small independent agricultural enterprises in which religion and rice growing were but part of a single activity often supplemented by small-scale home industry, such as cloth-dyeing or brickmaking.

The perpetuation of this pattern of semi-extensive agriculture was further stimulated and strengthened by the manner in which the Dutch sugar growing system impinged upon the village economy. Rather than planting cane in fields bought outright from native landholders, the sugar factories rented irrigated land from the peasants on a contract basis. Each village was obliged to rent one-third of its rice lands each year to the factory, the actual owner of the land being paid in money for giving up the use of it. Sugar matures, conveniently enough, in a year, and so each year a different third of the village land was rented out and the two-thirds planted by the peasant in his regular crops. The factories worked the land extensively with a seasonal labor force organized under foremen, although parts of the job, particularly in harvesting and transportation of cane to the factory, might be subcontracted to peasants who could organize, capitalize, and manage the labor force required. The result of this rather intricate and unusual system was rapid monetization of the peasant economy, enforced diversification of agriculture, increasing entanglement of the peasant economy with the Western, a proletarianization of much of the peasantry, and differential economic growth of that part of the population which had a degree of familiarity with money, a strong motivation to accumulate it and which also had access to pools of labor and the skill and capital to organize them. To an extent, although not a very great one, the somewhat rich got somewhat richer and the slightly poor got slightly poorer. And--for the most part--the somewhat rich were the santris.

So, many members of the rural santri community in the years before the depression were able to maintain an increasing prosperity in a generally declining village economy because they were equipped with the rudiments of a social and economic organization capable of taking advantage of the enforced contact with Western forms of agricultural enterprise. In addition, the most famous Javanese pondok of the time led by the most famous religious teacher of the period was in the same general area as Modjokuto at Tebu Ireng. It was at Tebu Ireng that Nahadatul Ulama, the organizational reply to the modernists, was founded in 1915, and so the Modjokuto area was plunged into the orthodox-reformist conflict from the beginning. The battle raged hot and heavy for a while but, as nearly everywhere, the modernists at length won, so far as methods are concerned, and today the emphasis in the area has shifted away from the pondok system toward the Western-type school. A number of pondoks still remain, two of them quite large with about 150 and 300 students respectively, but the students bring their tuition from home and the work-study system has decreased nearly to the vanishing point.

Why, then, supported both by Dutch economic intrusion and by local ideological stimulation did not the santri pattern of agriculture grow even stronger? Why did the santris not develop into great plantation landlords employing--or exploiting--large masses of proletarianized peasants? In the first place, the Dutch colonial government, reacting against the excesses of the culture-system, hemmed the sugar concerns in by a series of uneconomic welfare regulations which were designed to minimize the impact of those concerns upon the peasant economy and protect the forms of traditional village society from disruption. Secondly, the world-wide collapse of commodity prices in the thirties removed even this blunted stimulus from the Javanese scene. Thirdly, nationalism, war, and revolution have

turned Indonesian interests away from the economic field toward the political, and economic means for achieving ideal ends have been replaced by largely political ones; for the moment almost all the energies of the society are engaged in a simple struggle for political power on the assumption, as one religious teacher and political leader told me, that "if your party gets elected, the rest is easy".

But perhaps the most important factor which has limited the growth of santri economic power is that the santris, particularly the rural ones, are, after all, Javanese. If they have turned away from the abangan ethic they have not turned so very far. The appeal of the old values of inter-familial cooperation, of restraint of individual aggressiveness, and of the minimization of open acquisitiveness is still quite strong for the santri. The average santri has been unable to bring himself to disinherit his younger sons by explicitly adopting a primogeniture pattern in place of the time-honored equal-inheritance system; he has proved insufficiently hard-shelled to resist kith and kin demands for economic aid or to reject totally the traditional festival obligations; and he has proved unwilling to exploit the available labor without regard for the traditional norms and prescriptions regulating its employment and remuneration. The rural santri has not had the heart--nor perhaps the skill--to become a real landlord.

Turning to the urban side of the picture, the santri community within the town of Modjokuto was originally made up not of local peasants forced off the land, but almost entirely of migrant traders from larger urban centers, men whose families had been in small trade for at least two or three generations. They came to Modjokuto in the first place as young men, travelling out as agents of their father, of their uncle, or their cousin, who had an established business back in Demak or Gresik or Kudus. Actually, they were not true agents, but small independent traders, for the santri method of introducing young relatives into the business, even sons, was neither to take them in as junior partners, nor to provide them with an initial lump of capital sufficiently large to start a going business, nor to employ them as commission or salary salesmen; rather they presented them with a half dozen pieces of cloth (pairs of shoes, cartons of cigarettes), marked them down on the books for a debt corresponding to an only slightly preferential version of the local retail price of the merchandise, and then sent them out to sell the goods for as much as the market would bear. In time, the capital got returned and the boy began to buy his own cloth, shoes, or cigarettes out of his miniscule profits. It is the hard knocks school of business education, a sink-or-swim method, and whatever its shortcomings it innured the apprentice to living perpetually on the economic margin; it equipped him with the psychology necessary to survive in a petty capitalist society.

But with six pieces of cloth bought at retail a young man could not survive among the old hands in Kudus. The apprentice traders were driven out to the more marginal towns and small cities toward the South and East where distance from commercial centers and ports, low intensity of competition, and local ignorance combined to permit a higher profit margin. Travelling light, they learned the ropes from older traders and from their co-religionists, the Arabs. "They used to say we were just like Arabs", one old santri trader said gleefully. "We dressed in rags, ate one meal a day of rice and corn with no trimmings, and walked for miles peddling our stuff every place we had a chance. We weren't liked much, but we all got rich". Fiercely independent, they moved back and forth between their home base and Modjokuto less and less frequently, and in time tended to settle permanently in Modjokuto, perhaps marry a local girl (usually from a rural santri family), and go off only now and then on buying trips to the larger centers. Often partly specialized according to origin (Kudus men sold cigarettes, Gresik men sold fish, and Bawean men sold cloth), the urban santris formed a rather tight in-group, set off (residentially as well as socially) from both the peasants and the government clerks and progressively disliked by both.

Stimulated by the market the Dutch factories and plantations provided, this little group flourished up until the depression. In the twenties there were

nearly a dozen native stores in town, some of them rivaling the Chinese in the size and diversity of their inventories--almost all santri-run. The santris controlled the cigarette, cheap cloth, and small hardware businesses, and, except for luxury textiles, they dominated the fairly extensive trading that went on among the various local markets in the area. They built restaurants, started repair shops, tailored clothes, and cobbled shoes, and some even owned a truck or two. Some of the larger stores were able to apply, in part, more "rational" pricing mechanisms than those provided by bargaining over each individual item, to employ salesmen to go out into the countryside and sell the peasants in their homes, and to keep written books. Economic development and religious reform went hand in hand: by 1930 Islamic modernism with its attendant economic and political ideologies was well rooted in the santri community. Each of the various phases of the national movement (as well as of the counter-movement) found its counterpart in Modjokuto, where there occurred a remarkable efflorescence of associational life--among all groups, as a matter of fact--which has continued on into the present day.

The depression and the consequent departure of Dutch capital stunted this development half-grown; a number of the stores and restaurants failed, the Chinese muscled in on the cigarette trade, and a flood of landless abangans, released from jobs as Dutch servants and seasonal agricultural workers, pushed into the town to engage in commercial activities previously in largely santri hands. The pattern of economic life changed somewhat from one of sharp competition between aggressive and independent entrepreneurs running businesses with a certain degree of elaborated economic organization toward one of mutually interdependent impermanent traders set directly in the general all-over market complex without any mediating structure at all.

But the santri element, built for survival, has remained rather strong, considering the circumstances. There are today perhaps seven Javanese establishments worthy of the name "store" left in Modjokuto--six are santri owned. Much of the cheap textile business is still in Islamic hands, but on a rather smaller scale. And, not only are there a number of santri free craftsmen--shoemakers, tailors, barbers, bike repairmen--but a certain amount of small sweatshop industry continues to flourish under strictly Moslem management. In fact, in Modjokuto town today one can find a continuum of types of Javanese retail trading activity ranging from the "market complex" type to what might be called the "store complex" type, and this continuum correlates remarkably well with variations in religious belief from an abangan to a santri pole. As one moves toward the store complex, santri domination of economic activity grows steadily greater, although, as in any society, many of the cases are mixed ones and embarrassing exceptions occur.

The market is, of course, patronized by everyone, but most particularly it is oriented to rural and to lower class town trade; the informality, the bargaining, the generally cheaper quality of goods sold, all are directed, ultimately toward bit selling to a generally poor clientele. On the other hand, the best Javanese stores (they sell shoes and textiles mostly), situated among the Chinese in the main business section, are generally directed toward the upper-class town populace or toward the few rural rich. Their formality, their tendency toward fixed prices, their fancy glassed-in display cases, and their more expensive line of goods are adjustments to a clientele beginning to feel slightly superior to the jostling commonness of the market. In the secondary business section, particularly along the outside of the market in shops rented from the government, there are a few "transitional" stores which try to combine selling to both publics, the rural and the upper-class urban, but which are still in large part inside the market complex.

Within the market, the poorer santris do engage in the small scale moment-to-moment hawking of hardware, food, cigarettes, and the like already identified as an abangan pattern, but, given santri preferences, it is a rather lowering

thing to do, and most of them tend to avoid it for small craft work, if at all possible. Most significant santri activity in the market is concentrated in the cheap textile trade--which they almost completely dominate--in the buying, selling, and processing of the so-called kain kasar which forms the staple Javanese dress. These cloth salesmen sell not only cheap bulk cloth, but ready-made underwear, trousers, shirts, coats, and sometimes fancier cloth as well (although luxury textiles have had a rather special commercial history in Java which, until recently, has kept them, in part, out of santri hands).

As a result, the market stalls these salesmen operate are often merely the largely wholesale distributing outlet for a wider enterprise which includes a small garment factory and a "transitional" store outside the market, as well as numerous abangan satellite sellers within the market proper and out in the villages. Against the relatively homogeneous background of abangan market trading one can see a development of differentiated economic structure ranging from cheap cloth trading and processing in the market, to transitional stores which, while connected more or less directly with the market, try also to attract some of the urban non-market business, to fully developed "pure" stores wholly adjusted to the tastes of a small group of highly urbanized clerks and teachers. And one can see also that at each point this development is almost wholly owned, managed, and capitalized by men explicitly adhering to a revived Islamic ethic.

In the area of small industry one also finds a sharp contrast between santri and abangan patterns, contrasts evident in what is perhaps Modjokuto's largest wholly Javanese-run industry: garment making. Most of the well-to-do urban population have their clothes made to order by one of the dozens of independent tailors (almost all of them santris) who work their own machines in their own homes. But to serve the rural and lower-class market, there exists a number of independent cottage industries in which from two to fifteen tailors are organized into a small garment factory producing ready-made clothes of the cheapest variety: hats, coats, shirts, women's blouses and brassieres, trousers, underwear, socks, and even head shawls for Moslem ladies. Almost entirely santri owned, managed, and staffed, these small garment factories are not organized on the make-work pattern of abangan industry, but are rationalized according to the structure of the work task, carefully budgeted in terms of shrewd estimates of future market conditions, and operated at costs minimized by means of careful planning, close overseeing, and sweatshop exploitation of the labor force.

The father of one of my informants ran such a factory. Originally from Kudus, this man employs from two to five tailors, according to the season (the market for clothing being dependent upon the agricultural cycle and to a degree upon the ceremonial calendar) and sells their production in the market. The entrepreneur, as is usual in such factories, does all the designing himself. About four or five o'clock each morning he cuts the cloth according to pattern, lays it out for the tailors, and then leaves for the market with the previous day's output. The tailors work through the day at his home on machines he owns; in the afternoon he returns to check what they have done and arrange his accounts.

In rush seasons, the tailors may specialize on types of clothing for greater efficiency and sometimes may even divide the work of the more complicated jobs in production line fashion, but in the off-time there is no division of labor and they merely work at whatever is next to be done. They work from 8 a.m. until 1 p.m., from 2:30 until 5:30, and from 7 until 10 p.m., a common pattern generally, particularly in the peak period. They are paid piece rate, laid off when there is no work, and, unlike workers in abangan-run enterprises, they are given no extras such as food and cigarettes.

This particular entrepreneur does not pay his workers their wages as they earn them. Rather, he pays them a steady five rupiah a day (barely a living wage; low wages and long hours combine to give Javanese tailors a reputation for a short

life expectancy), irrespective of how much work they have done, and keeps records as to the amount he owes them according to their output and the amount he has so far paid them in "salary". As their output is almost always more than five rupiah (in the rush season it may reach fifteen for an excellent tailor), he is usually in slight debt to each of them. This enables him to have greater leverage over his labor force as well as greater control over their spending habits; the system is also designed to prevent the tailors from attempting to borrow money from the entrepreneur in difficult times.

On the distributive side the entrepreneur has three itinerant sellers who travel as far as twenty miles to sell his clothing to the plantation area people. These sellers are in constant debt to him--reversing the tailor arrangement--according to a rather complicated system which maintains the indebtedness of about one-half of the seller's daily turnover. On the other hand, the entrepreneur buys his cloth from a Chinese who comes to Modjokuto two or three times a week from the regional capital, and is in fairly heavy debt to him. In the market, most of the entrepreneur's selling is to other smaller sellers--also on credit--though both his wife and his daughter maintain stalls selling directly to the public (his family also cooperates to make buttonholes for him in the evening). Obviously, this man is the center of a fairly complicated set of financial arrangements and productive and distributive facilities. It is little wonder that he works twelve to fifteen hours a day, is rather disliked by his sons, is well-to-do, and that he is secretary-treasurer of the oldest modernist Islamic organization in Modjokuto.

VII

Prijaji in the narrow sense signifies someone who can trace his ancestry to kings and who consequently is permitted to write his name with a title before it, but it has come to be applied more generally to government officials, clerks, and, to an extent, to teachers--in short, to the whole of the literati. This little group, originally comprised of relatives and retainers of the Hindu-Javanese sultans, was the chief native agency of colonial government, the chosen instrument of indirect foreign rule, and so has been deeply affected both by the mystical aesthetics of pre-Islamic court culture and by the functional prerequisites of the hierarchical, paternal, bureaucratic, and remarkably efficient political administration introduced by the Dutch. The progeny of this ideological miscegenation turned out to be a carefully ranked caste of obsessively polite literate administrators and educators combining an inward-looking pantheistic imagination with a status-worried bureaucratic conscience.

The prijaji ethic ties together a series of moral preferences consecrating the kind of world outlook such a caste requires. The preferences involved are for the intense cultivation of the inner man and the intense formalization of the outer; for a highly refined sense for the nuances of status and a polished skill in expressing them in external behavior; for an interest in purity of descent and a concern for the well-made marriage; for a highly sophisticated formal art with mystical overtones and allegorical interpretations; for an attitude of paternalistic support; reserved distance, and amused condescension toward the uneducated masses; for an education system emphasizing literature, music, and philosophy at the expense of economics and technics; and for making one's living, insofar as it is necessary to work for it, in white collar occupations rather than in either farming or business. Literati, gentry, patricians, brahmins, aristocrats--whatever you wish to call them--the prijaji are the Javanese version of a social type seemingly universal in non-industrial civilizations: the men who are able to write.

Religiously, the prijaji have been particularly interested in neither slametans nor the Quran. Rather, they have been concerned with a search for ultimate mystical enlightenment, with elaborate philosophical and mythological

speculation upon the nature of man and the basis of his spiritual life and with secret systems of mystically supported prophecy and moral exhortation. Phenomenalists all, their religious patterns have been more intellectual than ritualistic, more psychological than physicalistic, more private than public. With neither the fixed forms of collective ritual behavior of the abangans nor the logically articulated dogmatic beliefs of the santris, prijaji religious belief and behavior shows a wider internal variation than that of either of the two other groups. But this greater range allowed for individual interpretation is merely a surface phenomenon: at base the prijaji religious orientation is a well-defined as the santri and abangan and at least as carefully adjusted as the underlying moral commitments it is supposed to legitimize.

The core of prijaji religious belief is individual affective experience. Largely uninterested either in the movements of the stars in their courses or in the vagaries of the natural environment, the prijaji pays rather strict attention to the state of what he calls his "heart", by which he means the general tone of his emotional life. For the metaphysical astrology of so many of the world's religions he has substituted an allegorical psychology, and for their naturalistic omen reading he has substituted systems of mathematical divination based upon mystical insight. Mystical insight--itself an indescribable emotional experience--is, in fact, the core within the core of his religion, and, like power, prestige, and beauty of character, it flows from the top of the social and bureaucratic hierarchy down to the bottom. It is not cleanliness but high office which is close to godliness.

This, at least in the past, was nearly literally true. The belief in the divine king, a belief widespread in Southeast Asia, formed a fitting capstone to religious theory which held that access to God through mystical experience was directly correlated with one's rank at the court and later in the colonial administration. An ascending scale of purity of heart and excellence of character found its climax in the concept of a king who was not merely an exalted servant of God, but, in some vague sense, was God. Around the king clustered the great philosophers, poets, musicians, and dancers--accomplished mystics all--who provided the content for the religion of a whole caste out of the fuzzy intuitions of prolonged spiritual meditation. This content, as well as the music, the dance, and the poetry, flowed outward and downward from the court centers to the prijaji manning the lesser outposts of government, roughening and coarsening as it went. The lower the man, the more partial his own religious experience of God must inevitably be and the less capable he must be of understanding that of others higher than himself, either in pure form or clothed in a spiritualized art. The Javanese have two words to indicate the two poles of this cultural continuum which are crucial in understanding the prijaji world outlook: alus and kasar.

Alus means pure, refined, polished, polite, exquisite, ethereal, subtle, civilized, smooth, and then again it doesn't. A man who speaks flawless high Javanese is alus, a piece of cloth with intricate, subtle designs painted onto it is alus, an exquisitely played piece of music or a beautifully controlled dance step is alus; so is a smooth stone, a dog with his hair petted down, a farfetched joke, or a clever poetic conceit. God is, of course, alus (as are all invisible spirits) and so is the experience of him; one's own soul and character are alus insofar as one emotionally comprehends the ultimate structure of existence, and one's behavior and actions are alus insofar as they are regulated by the intricacies of the complex court practiced etiquette. Kasar is merely the opposite: impolite, rough, uncivilized; a badly played piece of music, a stupid joke, a cheap piece of cloth. Between these two poles the prijaji arranges everyone from peasant to king.

Prijaji religious organization is part of the same general pattern. It consists of a series of independent sects, sometimes merely local in occurrence, sometimes more widely spread throughout Java, but with little over-all organization. Each local sect is headed by a teacher who transmits a set of concrete

religious beliefs, usually concerned with the metaphysical implications of individual emotional experience and almost always accompanied by specific (but rather simple) yoga-like techniques for the achievement of oneness with the One. The original center of such a concrete set of religious beliefs and practices is almost always some famous king or high rank scholar at the king's court who evolved them out of his inner consciousness by means of years of quiet meditation, usually in the woods or at the top of a volcano. Both the techniques and the true knowledge achieved by them were then taught by this original teacher to disciples, who in turn taught them to lower disciples, and so on down the line. The sects are often secret, the teachers usually favored with gifts, and the students ranked according to their mystical abilities. It is always well understood that approximation to the mystical success of the original teacher, and often even to that of the local teacher, is not to be expected. These things are high and difficult and take time as well as a certain amount of breeding. For those who believe in it, reincarnation offers some hope for long-range improvement of a significant sort, but for many merely a certain small increase in spiritual understanding is possible.

The content of these various self-contained religious movements varies widely. Some are concerned with allegorical interpretations of traditional mythological material, with reading between the lines of classical Javanese poems, or with psychological glosses on the ever-popular puppet plays. Others have described various stages of mystical advancement and developed meditation techniques appropriate to each. Still others have worked out physiological theories based on phenomenological considerations and derived curing practices from these, and yet others are concerned with such problems as the nature of the self, the validity of mental ideas, and the transempirical sources of human unhappiness. But their general outlook is identical: all are pantheistic, all are mystical, and nearly all draw explicit moral conclusions from their metaphysical assumptions, conclusions which celebrate the alus over the kasar.

There are in present-day Modjokuto about six major sects of this sort and a number of unaffiliated people with independent "religions" of their own, derived from the works of one scholar or another or studied originally in some other town. Of the major sects, four have their sources in the great inland culture capitals of Central Java, one is a Javanese version of the international theosophy movement of Annie Besant and also has its headquarters in one of these court centers, and the last had its origin in West Java and has turned into a communist-dominated politico-religious party directed more toward abangans than prijajis. The membership of these sects, with the exception of the last, is mostly prijaji, but some are more completely so than others. Particularly since the revolution, but even before it, some of the court-evolved religious systems have filtered vaguely down to the abangans, being rather corrupted as they went into magical recipes and ritualistic spirit cults. The sect movement, while predominantly a prijaji affair, has not been entirely so. With the weakening of the nearly absolute pre-war caste barrier between prijaji and non-prijaji, and the growing solidarity of all non-santris in the face of what they conceive to be the Moslem menace, the penetration of sophisticated prijaji philosophical systems into abangan society has increased.

VIII

In considering the prijaji economic position within the Javanese society generally, one immediately comes to wonder why they are so unlanded an aristocracy, relatively speaking. Their economic base lies, even today, almost wholly in the government bureaucracy. A few have accumulated a little land, a small number may have fairly extensive holdings, and the king has always had his estate, but by and large, Java's traditional ruling class has not been able to build up a truly feudal relationship to the peasant masses. In Modjokuto, although some prijaji

have managed to buy a dozen acres or so as an economic cushion, there is almost no tendency for the urban clerk to develop serious property interests in the rural hamlet. Now, as in the past, the relations between the village and the town are almost wholly administrative and commercial.

The reasons for this situation are to be found wholly in history, a history still insufficiently clarified. The degree of political development reached by native Javanese "states"--if any such there were--prior to the coming of the Hindus; the form the contact with the Hindus took--whether the immigrants were mainly traders or priests, whether they settled mainly on the coasts or moved quickly inland, whether they were many or few; and the degree to which the early courts were integrated into the society generally, are still all moot questions. But it seems clear that at no point have the ties between the courts and the people been well defined and stable ones. Whatever bonds have existed between the villagers and the nobles have been brittle and opportunistic rather than permanent and traditionalized. As the courts rose and fell the villagers shifted allegiance from one kingdom to the next, giving temporary allegiance to the one at the moment most able to provide maximum protection in return for taxes paid or services rendered.

With some exceptions, then, true feudalism was never able to get off the ground in Java. The prijaji have been almost entirely an urban class and a permanent rural gentry living on the land has never appeared. Instead the tie between town and country has been a loose one in which temporary occupants of the lower ranks of the urban bureaucracy negotiated with relatively self-contained rural village units for support in exchange for protection, and it was this system the Dutch rationalized by eliminating the competition between bureaucracies. Even today the distinction between local and national regional government is very strong in peasant minds, and the crucially difficult link in government is that between the lowest rank of the centrally appointed and wholly urban bureaucracy and the elected leaders of the various village governments. Now, as in the past, the central government and the prijaji outlook which justifies it sits uneasily in the general social context of Javanese peasant society, with much less actual control over the behavior of the villager than it would seem at first glance to have. Without the intricate ties between the urban and rural gentry one finds, for example in China, or without the deeply rooted, clearly defined, land-rights-linked social code of reciprocal obligations of feudal Europe, the prijaji has always found outward submission, exaggerated respect, and placating excuses easier to obtain from the abangan than actual obedience.

At any rate, and for whatever reasons, the prijaji are not today a class of large landholders, and their economic base lies almost entirely in the governmental bureaucracy. To this general statement one not so very important exception must be made. The court culture, with its emphasis on art and on dress gave rise to a native textile craft now known the world over as batik. Produced by drawing designs slowly and carefully in wax onto a piece of muslin and then dying the cloth--and repeating this process several times with different designs and different color dyes--batik was originally worn almost entirely by prijaji. Batik making became, as a result, a rather important home industry in the great court centers. Often these industries were run by wives of lower echelon court attendants and officials whose underpaid husbands were occupied with their obligations to king and country, and so a somewhat peculiar pattern of female-dominated luxury textile industry grew up.

With the development of simpler and faster methods of production and the expansion of the market for batik beyond the court, the santris more and more pushed their way into the industry, until today many of the largest concerns are santri-run; but the low level prijaji, somewhat accidentally in on the ground floor, managed to hold on to a certain part of the business. Before the war in Modjokuto, batik was sold almost entirely by a few prijaji women who bought the material from Central Javanese cities; now, batik is sold mainly by santris and

abangans in the market, though for the finest work one has to go to the homes of somewhat more upper-class women who still supplement their husband's meager salaries with a little genteel batik trading.

Thus, prijaji activity in both the rural, agricultural, and urban small trade sectors of the Javanese economy has been rather marginal at best. But with the coming of the twentieth century this group benefited almost exclusively, from greater educational opportunities, from the expanded demand for clerks and technical help induced by the Dutch plantation-factory enterprises, and from the ever expanding role of the government in the country's economic life. The prijaji became the doctors, lawyers, and engineers, as well as the accountants, personal secretaries, and sugar chemists, and when the revolution finally came they became also the civil servant inheritors of a governmental structure which had come to play a leading part in the organization of economic activities in the society in general and in the cities in particular. If the santris were the vanguard of petty capitalism in Java, the prijajis became, more or less accidentally and passively, the group most readily identifiable with the form of large-scale corporation centered administered capitalism which has marked the Western industrial countries in this century.

Not, of course, that the economic structure typical of Western Europe and the United States has appeared to any great degree in Java, or most particularly in Modjokuto, or that the prijaji represent a class of managers in the Western sense. But industrialization of any significant scope occurring today in the Javanese sector of the Indonesian economy is almost inevitably under the aegis of the central government, for the government is the only social institution capable of mobilizing the capital and, perhaps, of providing the directive personnel, and, as a result, larger enterprises are almost always directly or indirectly capitalized by the government and organized along lines similar to those of the civil bureaucracy, from whose ranks their managers are most often recruited.

In Modjokuto, there are two Javanese owned factories whose scale of operation is noticeably greater than that of petty cottage industry--one is a large rice and sugar mill and one a beer crate manufacturing concern. Both are somewhat mechanized, the first with diesel and electrically driven milling machines for both sugar and rice, the latter with electrically run power-saws imported from West Germany, and both employ more than fifty workers. The first industry is owned and run by a man who is at once head of the regional chapter of the Nationalist political party (a largely prijaji organization), a representative on the executive board of the regional governing council, and a man with a marked prijaji outlook on life; his chief technical assistant is a former prijaji employee of a Dutch sugar factory. The second industry is run by an ex-official of the very forestry department upon whose decisions the fate and prosperity of his enterprise depends, as it is his ability to obtain wood--almost all of it government owned--at economic prices which enables him to survive.

In addition, both industries were government subsidized in part. Clearly a familiarity with the methods of the government bureaucracy as well as an ability to manipulate it both in its own terms and by means of personal contacts is a rather more important skill for a would-be Javanese entrepreneur than those one learns in small-scale, self-capitalized trade and cottage production.

The entrance of non-prijaji groups onto the political stage and the growth of a universal educational system since the revolution may serve to moderate this process somewhat, but with a near monopoly of what little advanced technical training the Dutch provided the Javanese, with the highest developed skills of bureaucratic manipulation, and with a majority of the posts in the civil service in their hands, the prijaji are almost bound to play a major role in economic development in a country where the private sector of the economy is not likely to prove able to finance large-scale enterprises. If so, the pattern of industrial

organization in Java, if ever it appears at all, may take a form consonant with the over-all rank conscious prijaji ethic as previously defined and the group of inward-looking mystic bureaucrats seemingly so unsuited to either agricultural or petty capitalist forms of economic organization may find the more complex phases of economic development more congenial. Or perhaps they will merely suffocate them.

IX

The abangan, santri, and prijaji world outlooks are the major cultural orientations present in contemporary Modjokuto. Not only economic practices and occupational types, but political parties, social organizations, women's groups, residential areas, and familial relations tend to be organized and grouped according to these general rubrics. But it must be understood that these orientations are not hermetically sealed ideological systems, perfectly logical, perfectly articulated, and perfectly realized from which the social, economic, and political structures of Modjokuto are mere deductions. No more than the Westerner's, is the Javanese individual's social behavior but the outcome of his ethical preferences and metaphysical assumptions; as the Westerner's, his actions are always and everywhere the complex result of ideological, religious, economic, political, familial, and wholly individualistic considerations.

In the foregoing analysis I have tried to present a picture of a series of social structural forms--occupational role types, forms of agricultural, commercial, and industrial organization--intersecting differentially with a series of religiously justified social ethics, and to indicate the resultant patterns of behavior this intersection has produced. In the broader sense, the whole social organization of Modjokuto may be seen this way: it is a tenuous balance of forces, some ideological, some environmental, some organizational, in which the various factors so far outlined act in practice to produce a series of conflicts, compromises, and pure cases, as well as a number of exceptions to the rule; it is, as Max Weber once remarked, only because things are so very confused in practice that we must make our distinctions clear in theory.

It is also well to remember, though it cannot possibly be demonstrated here, that the three major cultural groups described above are neither wholly discontinuous, one with the next, nor does Javanese social organization take the form of three isolated sub-groups united by mere geographical contiguity. Not only is there a common system of values, a deeper pan-Javanese world view underlying all three of the separate orientations described, but a town such as Modjokuto displays a genuine integration of each of them into a social structure wider than any of them. In a sense, the prijaji world view is but an intellectualization of the abangan, and the abangan a corruption of the prijaji; the santri ethic, for all its Near Eastern pretensions, is still but a slightly differentiated interpretation of both abangan and prijaji conceptions. And the actual social relationships between individuals holding these slightly separate ethics within a concrete community as Modjokuto is the most crucial study of all, for it can demonstrate the manner in which both social and cultural change occurs, and depict the clash of value and power that forms the content of the historical process.

But even the relatively simple analysis presented here suggests interesting questions for social and cultural theory. What are the crucial factors determining the degree to which a given set of moral commitments finds adherents within a given society? To what degree is a religious system a dynamic factor in economic change and to what degree a mere outcome and reflection of it? What are the formal elements of various world outlooks which make them particularly conducive to certain patterns of economic organization? What is the nature of the motivational link between religious behavior and economic

behavior? And, is there a tendency toward sequential order in the development of either types of world view or forms of economic organization--is there such a thing as cultural drift and social evolution, and if there is what are its typical stages and what are the selective mechanisms producing it? Such questions are easier asked than answered; but in the microscopic investigation of concrete communities undergoing rapid social change--communities such as Modjokuto--some vague outlines of the replies we may eventually be able to give may be dimly discerned.

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SMALL SCALE INDUSTRY AND ECONOMIC DEVELOPMENT IN INDONESIA

Lying on the equator, stretched out about 3,000 miles on it, are the rich three thousand green islands of the Indonesian archipelago. When properly surveyed and assessed, the world will be surprised at the tremendous wealth of this group of islands. Brazil and Indonesia, in two different hemispheres, will offer challenges in development that may well be the marvel of the century. Space for expansion is no problem yet for its 80,000,000 people. While Java, with its population density of approximately one thousand per square mile, is the most thickly populated piece of land in the whole world, its adjacent island, Sumatra, three times as big as Java, has only one-fourth its population. The other islands, Borneo (Kalimantan), Celebes (Sulawesi), and the Moluccas, are very sparsely inhabited. While transmigration has been a very slow process, the future for the growing population is not as bleak as it is in some of the other Far Eastern countries. With the main productive apparatus centered on the island of Java, it has sometimes appeared that any gain in productive capacity is always neutralized by the tremendous increase in population--about 1.5% a year. The expansion of production in rice, the basic food, has never been quite adequate to feed the growing population. The tremendous needs in consumer goods of the great mass of people in Indonesia has in recent times created a very serious drain on the foreign currency reserves of the country. The prices of agricultural commodities and products from the mines have been subject to fluctuating world conditions, and adequate foreign exchange has been difficult to accumulate. Indonesia, in the last few years, had to tighten its belt and cope with diminishing foreign currency reserves.

It is only in recent times that thought has been given to diversification of the economy to offset some of the uncertainties in agricultural production and marketing, particularly when the latter was directed towards the accumulation of foreign exchange. Industrialization has been favored as the tool with which to diversify the economy. The progress in the industrial field in Indonesia is of very recent origin compared with that of other Far Eastern countries. The assistance given by the government has always been channeled towards agricultural production. The keynote of the proposed industrial development program of the Government of Indonesia is to "develop and strengthen the economy of the people as the basis for a sound national economy".

Two periods become obvious in a study of the industrial development of the country over the last half century. During the period between 1900-1930, one witnesses development of some primitive rural establishments with no assistance from the government. In the second period, between 1930-1940, there is a wider development, especially of small scale industries, with government assistance. The government, for the first time, gave assistance to the expansion of small scale consumer goods industries and thus helped the beginnings of the growth of the middle class. This can perhaps be called the modern period of colonial development, when the so-called ethical policy aimed at the welfare of the people and not so much concerned with pure economic exploitation was inaugurated. Most of the industrial development, however, was in the field of processing of agricultural raw materials, sometimes mainly for export. Rubber curing and smoking centers, oil extraction units from copra and oil seeds, tea drying sheds for grading and drying tea--these are some examples of this development, and, as can be seen, these are closely related to estate production. But, along with these, there was a gradual growth of the iron, construction, and textile weaving industries. Even during this stage of development, there was still an emphasis placed on production for export and not production for local consumption.

During the latter period of industrial growth, which we might call the period of deliberate industrialization, some fairly large units have struggled into prosperous existence. These are only a handful, but they are playing an important part in the economy of the country. The cement plant in Padang, Sumatra, the radio and communications industries of the Phillips Company on Java, some of the large metal working factories in the area of Sourabaja and Djakarta, the food preservation industries in the outer islands of Bali and Timor, the desiccated coconut plant in northern Celebes, a plant making flashlight battery cells in Djakarta, the big American oil companies, the tin winning industry on the island of Bangka, are the important larger units in the basic industrial picture of Indonesia. These industries, though a handful in number, are contributing to a great extent in providing employment and in procuring for the country a fair share of its foreign exchange revenues. It is on top of this basic framework of large industries that further development will undoubtedly take place.

But the really basic factor in industrial development of the country is to be found in what in Indonesia are called "people's enterprises". These are small scale industries developed in the villages and sometimes in larger cities and which cater to the basic needs in food, clothing, and housing for the people. It is on this large network of small scale units that the lasting industrial productive ability of the Indonesian people will--it seems to the writer--ultimately rest. These industries are indigenous in every sense of the term. They use native labor, talent, and techniques in producing consumer goods that have a local market. There are some salient features in the pattern of small scale industry that are worth enumerating.

1. By a curious mixture of accident, proximity to markets, and raw materials, one definite type of small industry is concentrated in specific areas of the island of Java and some of the outer islands. It is very common to find, for example, that in every home in a small village such as Plered in West Java, families are making ceramic ware. In the small village of Klender, which has about 400 workshops employing between three and five people, every one of the workshops is producing articles from wood such as school furniture, cots, living room furniture. Magelang in Central Java is the center of small leather tanning and processing units. So is Pamekasan on the island of Madura. These small industries have old histories and have grown with the community. The small industries have for some time supplied the needs in consumer goods of the outer islands. The umbrellas made in Djuwiring in East Java are exported to all over the islands. The umbrellas are a speciality of this place, and the whole community takes part in their manufacture. It is on this concentration of one particular type of endeavor in a locality that an important program of the Government of Indonesia in the field of small industries is based.
2. The community spirit in the Indonesian village life is remarkable. The people easily lend themselves to organization on a cooperative basis and very often want to follow the same pattern in economic endeavors as in their social problems. When one travels through the villages of Indonesia, one notices a large open structure where the village people or their representatives meet and discuss problems of common interest to the whole community. It is democracy in a pure and simple form. It is this spirit of cooperation that can be easily harnessed into the operation of small economic units. The Central Production Plant Program, to be described later, takes full advantage of this feature of Indonesian society.
3. The small scale industries of Indonesia suffer from some common handicaps. They are labor intensive. Capital is hard to come by. Techniques are antiquated. Competition from imported goods is serious. Tastes of the people are changing. Markets are uncertain. It is against these odds that small scale industries have to fight and survive.

Industrial Planning

Industrial planning in Indonesia is itself a new phenomenon. As in all other newly established states, planning for the future has been included in the platform of many of the political parties. Intellectuals and leaders of public opinion have put forward partial or complete plans for the whole country or for specific regions. It is only in the last two years that an attempt is being made to pull together all these plans and work out a plan in keeping with the national aspirations and ideals. The Diwan Perantjing Negara (The National Planning Board) has been established, and after the solution of a number of administrative difficulties and problems of coordination, it has become a functioning organization. The Board consists of Ministers from a large number of Ministries who are advised by a group of experts provided by the United Nations. The experts advise in various fields, including monetary and fiscal policies, labor productivity and training, and industrial economics. Preliminary studies are being made and scattered statistics are being brought together, and an attempt is being very seriously made to fix the objectives. The plan on which the planning agency is working will be for one year plus five, a firm development plan for 1955 and general lines of development for the following five years.

In the field of economic development, whatever may be the form of the plan, the principles as stated in the Urgency Industrialization Plan, 1950, and releases by the Planning Board are roughly as follows: the economic structure, leaning heavily on agricultural production and unduly influenced by fluctuations of the world market, must be diversified. Economic stability can be accomplished by an increase in production and opening of new production facilities. Main attention will be given to the production of consumer goods. All efforts should be made to utilize and process indigenous raw materials. In the field of small industries, attention should be directed to efforts at modernization, mechanization, and improvement of their organizational strength. Industrialization should help lessen the burden of "disguised unemployment". These principles are general in nature and form the background of thinking of economists and industrialists in Indonesia at the present time. State aid to industrial growth will certainly increase in the coming years, and the government will participate in an increasing measure in the actual planning and operation of many new industrial enterprises. Indonesia will not be alone among the newly established countries of the world where state aid started many an industry, which was then taken over by private enterprise. The broad objective of planning will be the same as in other underdeveloped countries--the raising of the standard of living of people, and increasing the national income.

It is in the execution of some of the projects based on the above principles that a method can be found to predict practical rates of progress and suitably change the planning as a result of the experiences. Forms of organization and new methods of financing may have to be evolved to make the Indonesian enterprises successful. The small industry program of the Ministry of Economic Affairs, in the planning and execution of which the author took part, will help to illustrate some of the principles enumerated above.

Governmental Organization

The Ministry of Economic Affairs is, in the main, responsible for the planning and execution of the industrial projects. During the tenure of office of one of its Ministers, who is also one of the country's leading economists, a plan called the "Urgency Industrialization Plan" was put forward. This plan lays down the general principles and attempts definition of many specific industries and investments involved in their development. This plan may be said to reflect, in a broad manner, the general thinking in Indonesia on industrial development. Many aspects of this plan will certainly form part of the over-all economic

development plan for Indonesia. Some parts of the plan are very specific and are so generally accepted that budgetary provisions were made for their execution in the years 1951 and 1952 and the programs are in an advanced stage of development. The small industries program is one such.

The Ministry of Economic Affairs is one of the oldest Ministries and is divided into two important directorates from the point of view of industrial development. One is the Directorate of Industry and Trade, and the second is the Directorate of People's Economy. The Directorate of Industry and Trade is divided into a number of subdivisions, and one such is the Department of Industry. It is this department that is directly in charge of operations of the small industries program. This department supervises and directs the growth of small industry through its ten regional offices. These are the extension service offices of the Department of Industry and, in turn, function through their branch offices in the regions. Here is a system of organization which is rather unique, in that the lines of authority and communication have been laid down for a number of years, and new developments and programs are very easily put through this original set-up. In some of the technical departments of the Government of Indonesia, these extension service type of units are functioning very efficiently in dissemination of technical information and general assistance in the specific field of activity. These regional offices supervise the small industry projects in their area, pass on the granting of credits to small scale industry, and act as liaison between the small scale industries and the Development and Training Institutes of the Department of Industry.

Three Approaches to Small Scale Industry Development

Three of the salient features of the small industries program in Indonesia are described in the following paragraphs:

1. Rehabilitation of the Development and Training Institutes;
2. The Central Production Plant Program;
3. The Program of Mechanization of Small Scale Industry.

As mentioned earlier, these three features were included in the Urgency Industrialization Plan published by the Ministry of Economic Affairs in 1950. During 1950 and 1951 detailed plans were drawn for each one of the above programs, and implementation of the plans began toward the end of 1951. A period of intense activity followed, and the programs gained momentum during 1952 and 1953. In the following paragraphs, an attempt is made to summarize the accomplishments of each of these on-going programs.

1. The Development and Training Institutes. The Development and Training Institutes of the Department of Industry, which are six in number, have proved to be very useful institutions in the development of industry in general and small scale industry in particular. The institutes are situated on Java in the important cities of Djakarta, Bogor, and Bandung, with branches in Sourabaja and Macassar. The fields covered by the six Institutes are Ceramics, Materials Testing, Chemical Analysis of Export Product, Leather, Textiles, and Chemical and Mechanical Industrial Development. The institutes have a three-fold function of development, training, and extension through the regional offices. During the war and, subsequently, through the Japanese occupation, the institutes reached a very low level of operating efficiency, with the physical facilities damaged and its technical personnel diminishing with the return of the Dutch technicians who were in charge of the institutes to Holland and other countries.

One of the first projects of the Department of Industry was to bring the operating efficiency of these institutes to their pre-war level, enlarge the training facilities, and attract, wherever possible, technical talent to help

with development and training. The rehabilitation of the institutes had top priority in the "Urgency Industrialization Program", and justifiably so. Indonesia lacked seriously and even today lacks the technical personnel necessary for industrial development. A way had to be found to train them quickly, cheaply, and in the Indonesian environment. The institutes were the logical choice to accomplish this objective. New projects of immediate economic significance had to be started to help with the program of diversification. Simple techniques had to be evolved in these institutes so that they could be immediately put into effect in the field. With the growth of national enterprises, a good deal of technical information was sought, and the institutes were the places to which most such inquiries were directed.

The Department of Industry tackled the problem of upgrading the institutes very efficiently, indeed. Nearly \$200,000 worth of equipment to supplement the existing facilities of the six institutes was brought in. Financial assistance was given by the Technical Cooperation Administration of the United States. The Indonesian budget provision supplemented the funds. The United Nations T.A.A. was requested to supply specialists in the fields of Chemical Engineering, Mechanical Engineering, Ramie, Textiles, Ceramics, Glass, Leather, and Chemurgy. The program got very slowly under way. The training facilities of most of these institutes is almost doubled. A new glass section in the Ceramics Institute is being opened, and a mechanical engineering section in one of the institutes will shortly be helping the small industry project in the field by providing technicians. The Central Production Plant Program is being constantly assisted by the six institutes. The chemurgist is tackling such problems as purification of native resin, upgrading of tapioca flour quality, isolation of cortisone precursors, and demonstrating how these processes can be operated in the village by very simple methods. The leather institute, with the assistance of the leather expert, has introduced new tanning methods, preparation of specialty leathers, and introduction of new softening and coloring agents. The investment in the institutes has begun to pay off.

2. The Central Production Plants. The Central Production Plant Program (The "Induk" Program) is the feature attraction of the small industries development in Indonesia. This is an approach which is unique among developments in this field in the Far East. The emphasis in this program is not in the production of luxury items which could reach only a selected market or products for export and accumulation of foreign exchange. The basic philosophy is one of producing consumer goods at a very reasonable cost and by techniques which are in keeping with the technical ability of the small villager. The emphasis is placed on eight selected fields. These are ceramics, textiles, leatherwork, woodwork, rubber products manufacture, parasols, metal work--iron, and metal work--other metals.

The basic production unit in the small village is the home. Here, in the spare time of the members of the family, some primitive articles are turned out for an unknown market. The articles are unstandard and the designs are unacceptable. The capital required for the purchase of raw materials is very often scarce, and the small craftsman has sometimes to mortgage his whole production over a long period for a small loan from one of the money lenders. The problems were partially solved by the operators grouping themselves together and forming a cooperative supervised by the Wedana, the head of the district, or the Kapela Desa, the chief of the village. The result of this union was that the units could accept and develop larger quantities of articles which were more uniform and more acceptable. But one important obstacle to the further development of these cooperatives was lack of capital. This allowed unscrupulous middlemen who offered large sums at high rates of interest to control the production, and many cooperatives had to close down under these adverse circumstances. The Government of Indonesia had by this time realized the great industrial potential of these cooperatives and included 24,000,000 rupiahs in the budget of the Urgency

Industrialization Plan. To date, more than twice this amount has been spent on these central production plants.

It was decided very early that the best method of helping these cooperatives was to put on it a superstructure of the central production unit. This can be defined as a semi-mechanized industrial unit placed among groups of cottage industries and operated as a cooperative venture. This superimposition results in a unit which combines preparation of raw materials or finishing of the material with the business unit, which has a purchasing and a merchandising function. This combination then could be operated as an economic unit. The functions of such a unit, as catalogued in one of the reports of the Department of Industry, are:

1. The purchasing of raw material.
2. The sale of raw material to the units composing the cooperative on a credit non-profit basis.
3. Preparing and processing of raw material.
4. Technical guidance to the units on improved methods and processes.
5. Mechanized finishing of products to a standard quality.

To these must be added the very important function of selling the materials of the cooperative in markets determined by a fairly accurate survey. The principles enumerated above can best be illustrated by taking some specific examples. The "centraal" (the Dutch word for the "induk") which has reached, perhaps, the highest stage of development is the ceramics centraal in the small village of Plered in West Java. Two other induk are located in Malang, East Java, and Majong, Central Java. The products of Plered, prior to the formation of the induk, were mainly utility articles of traditional design produced in red, unglazed clay, together with a large quantity of artware such as dolls and vases in red and brown clay. The articles were painted and glazed with a lead oxide glaze which made them entirely unsuitable as food containers. The central building was started in the last quarter of 1951 and was completed by the middle of 1952. The unit went into operation very soon with equipment supplied by the TCA and technical assistance given by the Bandung Institute of Ceramics. The mechanized part of the unit processed the clay with modern machines and helped save many, many man-hours of work and, also, produced at the same time de-aired clay of uniform consistency. The use of kaolin was introduced for the manufacture of white pottery and glazes, and the composition of the glazes was improved by using new oxides and mixing them scientifically. Kilns of higher temperatures made possible more uniform firing of the glazed and unglazed pots. A new type of potter's wheel which gave greater operating momentum was introduced and helped produce a better formed article.

The central production unit has been able to produce a tea set of good quality which is competing in the markets with similar imported pottery. There is still a great deal of room for improvement in processes and in organization, particularly in the selling end of it. But the Central Production Unit has already demonstrated that it is able to stand on its own, while, at the same time, acting as a pilot plant for experiment and training center for ceramic workers in the area. It has also shown many points which have to be watched when the two other ceramic plants go into operation. As the first attempt to bring technology into the midst of a primitive village, the central production unit has been most successful. The wage rate has improved. There is visible prosperity in the village. The owners and operators of the units are happier and proud of their endeavor. Products of the induk are being shown on exhibitions inside the country and outside. In the year 1951, close to 25,000,000 rupiahs were spent for the importation of crockery and enamelware. This is one industry that, in the course of the next four or five years, should be able to reduce considerably the heavy drain on foreign exchange.

The regional specialization referred to in the previous paragraphs is nowhere so obvious as in the metal working units, the forge centraals in the

three provin. s in Java. There are two areas, one in Tjisaat in West Java and one in Bareng in Central Java, which specialize in the manufacture of cutlery, scissors, and knives of all types. Tjiwideh in West Java and Madiun in East Java are noted for their agricultural hand tools, railway spikes, clawbars, etc. The induks are based on the same pattern with only small changes here and there. The induks in the metal working industry are mainly interested in the processing of raw material, which in Indonesia at the present time is mainly scrap iron and scrap steel. These raw materials are bought in bulk, and hence cheaply, sorted and graded at the induk, and the metal is prepared using pneumatic hammers, power saws, and other mechanized equipment, and fashioned into a shape that is easy to be worked in a small home unit by means of hand tools and equipment. The induk will maintain and resharpen and repair the hand tools and, also, manufacture some very simple specialized tools and machines. After the desired product is made at home, it is brought to the induk for grinding, finishing, and, if necessary, for electroplating and proofing. The "centraal" will assist the small industry owners to market their products. Whenever bulk orders are received by the centraal, they are distributed among the units in amounts which are in keeping with the units' abilities. The copper working induks will function in the same manner as the forges--the products, of course, being brass hardware of all types, spoons, forks, kitchen ware, charcoal irons. The induk will control the quality, finish the products, and handle sales.

The foundry area in Tjeber, Central Java, the woodworking induk of Klendar, West Java, the textile units of Madjalaja, West Java, are further examples of the small industry reorganization into the pattern of Central Production Units. The leather industry in East Java and on the island of Madura are mainly combination tanneries and leather working units and have shown remarkable progress in the past year. With the help of the leather institute in Djodjakarta, new methods applicable for the small tanneries have been developed, and the centraal in Magelang in Central Java has set a splendid example in the direction of modernization of small scale industry. The hides produced in the centraal sell for nearly 20% more than the country hides, and greater interest is being shown by the local community in its operation. It may be safe to predict that leather and ceramics are two of the most promising induks in the whole plan and set the pattern for any future development in this field.

In the early years of operation of the induk, it may be said that the government is still virtually in control of the centraals, nursing them, as it were, in their early development. The directorates of these "pre-cooperatives" have a preponderance of government representatives, and there is a tendency to look upon them as government enterprises. The next two years will perhaps be the time when decisions will have to be taken to transfer authority gradually to the people in the community and make them feel that they are the persons who are in control of it. After the two years of initial operations, when it should be possible for the organizing and the bookkeeping involved to be systematized, the government can then withdraw gradually and exercise only supervisory control and leave the real administration in the hands of the local operators. The induks can then register as regular cooperatives and may be made subject to the audit of the Department of Cooperatives. This will, of course, be a gradual transition, but the policy of transfer of authority should be defined as soon as possible. The next logical development in the field of Central Production Units will be the formation of a "centraal of centraals" or an association of Central Production Units which will act as a central clearing house for products of the centraals, take care of merchandising, handle foreign business, if any, be in charge of publicity for the Central Production Unit program, and maintain government and trade contacts. This organization can be sponsored by the Department of Industry, nursed for a little time, and then turned over to private entrepreneurs interested in the Central Production Unit program to operate the office. This association can then open offices in major cities to handle the distribution of the products of the induks and generally aid in the marketing of small industry's products which has been, so far, the most difficult problem in this field.

There is sometimes talk by workers in the field of small industry to manufacture products for export. In Indonesia the emphasis so far has been to manufacture products for local use. It is possible that a small industry artware can be marketed successfully in a country like the United States for a year or two or more in some cases. Even a small quantity of foreign exchange may be accumulated by the country, but in the opinion of the author the basic approach must be to make things in such a way that they fill an existing need within the country and enrich the internal economy of the country thereby. The test of any industry, big or small, is the fact that the man who makes the product must be able to buy it, also. The small industries should be modernized, their organizations improved to a level that can produce the goods cheaply and efficiently and enable the worker himself to afford to buy it. Unfortunately, in many of the underdeveloped countries the situation is contrary to this principle. The small industry manufacturer turns out commodities which are artistic, some of the finest items produced anywhere, but he himself cannot afford to buy them. It reaches only a select market and may be marketable abroad as a curiosity from another country for a little while. This explains, in many cases, why it has been difficult to make the small industries self-sustaining and make them stand on a sound economic basis. The approach in Indonesia of assisting these objects is a very sound one. It is an approach that is unique and should be applicable to similar situations in many areas of the Far East and the Middle East.

3. Mechanization of Small Scale Private Industries. The Urgency Industrialization Plan of the Ministry of Economic Affairs outlined a program for the promotion of small industries by means of granting credits. While the Central Production Plant Program aims to assist the very small home industries which are otherwise uneconomical units and coordinates them into a modern efficient economic unit, the Small Industry Mechanization Loan Program takes into account slightly bigger units. The available funds are taken right into private units. In most of these private units the techniques employed are antiquated, the productions low, and quality unstandard. By introduction of a simple mechanical device such as a hand operated tile press, a ceramist's jigger, or a small hand operated blower, a small gasoline engine, where there is no power, would very often mean the saving of hours of labor and a more uniform product. Under the plan of mechanization, equipment of this sort is given out to small industries on a very nominal interest rate with the capital to be returned over a period of eight to ten years. The units selected for inclusion in the program are those industries which manufacture consumer goods, which save foreign exchange, or those that may produce export commodities. The emphasis was not placed on industries in the last category, however. Only the rattan products industry and the leather tanning industry may be considered to belong to this last mentioned group.

The industry credit system of the Bank Rajkat and the Bank Industri Negara operated without making any differentiation as to whether the particular plant needed operating capital or capital equipment. It is only in recent times that the Department of Industry and the Ministry of Economic Affairs gave thought to the best method of utilizing the available funds without unduly inflating the economy any more than the already existing level of inflation. It was realized that it was better to give capital equipment to selected industries and require the industries to put up the operating capital necessary to use the equipment. This approach would force the investment of any shy capital. The program generated great enthusiasm in the people, and a large number of entrepreneurs applied for these loans and made declarations that the operating capital would be supplied by them. The available funds in the budget of the Ministry could thus be spread out to assist more industries, as only a part of the funds needed for modernization of a plant was supplied by the government.

The idea that mechanization created unemployment delayed the general acceptance of the soundness of the program. The selection of industries had to

be made very carefully so that unnecessary dislocation in the labor market did not result. The criteria of selection will be described later. It was surprising to find that the operators of small industries welcomed mechanization very avidly. Instances of people who requested more equipment than was proposed by the Department were many. A small industry operator in West Java, for example, wanted his diesel generator to be twice the capacity of what was recommended for his plant. He would use the generator to provide electric lights for all his workmen, and if there was a surplus of energy he would run a movie house in the village. It is this kind of enthusiasm that the promoters of this program were happy to find and encouraged such entrepreneurs as much as possible. There were also cases, however, of tradition-bound industry owners who wanted to go very slowly in mechanizing their operations, even though there was a very strong economic justification for modernization and increase in production. No compulsion was placed on the operator to accept all the equipment that was recommended by the technicians of the Department of Industry. The approach was definitely to go very slowly and at a rate which the industries themselves wanted to go. Every mechanized unit in a community meant more training, more employment opportunities created by increased production. The idea took hold very rapidly. The Ministry of Economic Affairs budgeted an amount of 25,000,000 Indonesian rupiahs for two years of operation of the program, and the TCA contributed close to a half million dollars towards the foreign currency requirements of the program.

The choice of the industries for granting of loans for mechanization was left in the hands of the inspectors of industry, who sent out questionnaires and collected information from many sources, such as the banks and other government agencies, about the soundness of the enterprise, and made recommendations to the central office giving justification for the inclusion of each one of the plants in the program. The Central Office of Industry in Djakarta collected all the recommendations and made the final selection after many conferences with division heads and the inspectors. The criteria that were used were very simple. Food industries or food processing industries, such as tapioca mills, oil expression units, soya bean cake making units, and rice milling units, were put in the first priority group. The second priority was given to building materials. This group included brick and tile making units, cement floor tile making units, lumber yards, metal working units, and the like. The third group included other consumer goods industries, such as textiles, leatherworking units, units for making brushes, rope making units, etc. There were some special products which could have been treated by the pilot plant method, but, to test the validity of the hypothesis put forward above, were included in the mechanization program. These can be called new industries, but there were entrepreneurs interested in backing up the program with operating capital if the Department provided the equipment needed. These special projects were: (1) Ramie fiber processing unit; (2) school slate manufacture; (3) sulphur refinery; (4) a unit for manufacturing hard boards out of coconut fiber. The economic feasibility of these plants was determined before the investment was decided upon. In the case of the special projects, there was no doubt that the product would be easily marketable and that the plant would pay itself off within a reasonable time. The school slate manufacture, for example, was a primitive industry and supplied only a small portion of the great need for school slates in Indonesia. It was estimated that approximately seven million slates were needed per year for the growing school-going population in Indonesia. The bulk of this quantity was imported from abroad with the expenditure of approximately \$2,000,000 in foreign currency. Central Sumatra is very rich in slate bearing rock, as in many other metals. The mechanization of two primitive establishments would fill the need of school slates in Indonesia within the next three or four years. An operator of one of the slate plants had evolved a formula of his own to make slates out of powdered slate instead of out of the slate blocks, to overcome the difficulty of carrying large blocks of slate. The author assisted in the improvement of this formula, and it is now possible to produce slates by pressing them out in a conventional tile press and at a rate which is at least eight times faster than the other methods.

The sulphur refinery to be assisted in North Sumatra is also a primitive establishment in which sulphur bearing sand was disintegrated by hand power and melted over wood burning stoves and the pure sulphur decanted into tin cans, thereby producing blocks of sulphur which were sold in nearby towns. A simple method was needed to purify this fairly rich ore of sulphur and recover sulphur in a form that is 99.94% pure, so that it could be directly used in the vulcanizing operations of the big and small rubber plants in Indonesia. Again the entrepreneur was located by the inspector of industry. A simple apparatus for blowing steam into the mass of sulphur bearing ore was purchased for the project with what can be called a very small investment. The operating capital again was put up by the refinery operator. This capital was collected by him by offering shares in his company to his workmen. Even a bridge was constructed across a small stream by means of hand labor by the same workers, and there was an example of a splendid community effort in an economic venture when modernization was promised by the Department of Industry.

The equipment that is given out on the program remains the property of the Department of Industry until the loan is paid off. If for some reason the operator of the small industry who has received the loan cannot make a success of the enterprise, it is possible for the Department of Industry to move this equipment to the plant of another person who has shown ability to use similar equipment granted. This could not be done if only money in the form of operating capital was invested in the plant. The People's Bank acted as the receiver for the loans and administration of the financial end of the program. This granting of industrial credit was itself a new thing for the small People's Banks in the outer islands, and this program offered some training possibilities in administration of loans of this kind. The bank also supervised how far the industry operator followed the financial clauses included in the purchase agreement that the operator signed with the Department of Industry. The technical assistance to these small industries was given by the regional offices of industry, and in cases where the problem was complicated, it was turned over to the institutes of the Department of Industry for solution. The institutes thus acted as a clearing house of technical information for both the Central Production Unit Program and the Mechanization Program. Together with these two, the institutes formed a triangle on which the small industry program was based. If it does not serve any other purpose, the Small Industry Mechanization Program may be looked upon as a project in industrial education or industrial acquaintanceship to the people of the desa (village) and a method of bringing the first principles of industrialization to their doorstep.

The Mechanization Program has been able to assist close to two hundred small industries scattered all over the archipelago in seventeen different types of consumer goods industries. The program is particularly suited for the outer islands, where the density of population is very low, where labor costs are high, and where power is scarce. The two programs, the Central Production Unit Program and the Mechanization Program, are complementary to each other. The sparse distribution of industrial units in the outer islands makes their integration through the induk program difficult. The Mechanization Loan Program, on the other hand, can assist individual units, in or out of Java. In the programs of the last two years, more units from Java have been included in the program as it was easier to build on the already existing level of industrialization. The rate of absorption of assistance was greater and the benefits of the approach could be demonstrated very forcefully, and the success on the main island would make for easier acceptance of the program in the outlying territories.

The establishment of the so-called pilot plants is often the procedure in small industry development. The Mechanization Program showed, however, that there was a slightly different approach--an approach that would be more realistic than the pilot plant. Each unit that was mechanized in the community had existed in the community for a long time, and mechanization showed what could be done by

way of modernization of this primitive industry. This was a plant which was part of the community and not a pilot plant imposed on the community recently. There were workers in the community who had taken part in the operations of the plant before mechanization, and these were the persons who realized at once what a great improvement mechanization meant. This type of a mechanized unit was more close to a real operation than any pilot plant could be, and it brought the interest of an entrepreneur right into it because it was already there. The expenditure involved was also much smaller than that of a pilot plant, as it was shared between the government immediately and the entrepreneur who put up the operating capital. So any future development, the type which was to be established anew, can begin with a loan of this type rather than fresh investment in a pilot plant. If the process, however, is very complicated, a pilot plant may become necessary. But if it is only the encouragement of simple industries making consumer goods of the type discussed above, this approach should be less expensive and should yield quicker results.

Training

The execution of the projects described above and the operation of the regional industry offices and the Institutes require a large number of trained personnel. Unlike the situation in other underdeveloped countries, such as India and Pakistan, the training facilities available for Indonesians during the period they were colonized were very few indeed. Many departments of the government are understaffed from the technical standpoint and are, at the present time, engaged in intensive training programs. The University of Indonesia is just beginning to graduate some engineers, and it will be another five to eight years before there will be enough Indonesian engineers to at least partially staff the various research and training institutions now operating in Indonesia. What is needed, however, is not the university or academic type of training for some of these projects, but the development of the basic skills. The lack of it is often ascribed, and justifiably, to the colonial administration.

As the first step in the training program, the Department of Industry selected eight leaders from the Development and Training Institutes and sent them abroad for training in the United States and in Japan. These have since returned and have taken up important duties in the Institutes and are helping to augment the training facilities available. Many officials from the industry offices of the provinces are now being processed for similar but more specific training abroad. These programs are conceived as only a means of giving key people knowledge and experience which will help them in enlarging training facilities. The author definitely feels that the best training could be given only in the environment in which the worker is going to take his place, and not anywhere else. The other obvious advantage of training within the country is economy. In recent times in Indonesia, the Ford Foundation is encouraging a program of training in basic skills, a program which will have far-reaching effects on training methods in Indonesia. The Department of Labor and other departments concerned with training are concentrating their efforts in this very important field. It is often possible to find many agencies in the same type of training program in Indonesia. While training is needed in all fields, coordination of training programs is very badly needed.

From the point of view of small scale industrialization, the training needed can be called managerial or supervisory training. The Ministry of Economic Affairs has a Department called Djawatan Organisasi Usaha Rajkat (Office for the Organization of People's Industries), among the duties of which is the dissemination of information on accounting procedures, work systems, managerial responsibilities, incentives, employee welfare, etc. This department needs to be strengthened, and any managerial training for small industries may be conveniently conducted under its auspices. A unique development has been a project

through which private small scale industry entrepreneurs are given an opportunity to view operations of similar industries in a country or countries of their choice. These entrepreneurs will be assisted in contacting foreign enterprises making the same or similar products in the particular country of their visit. Nearly twenty-five such persons are being processed at the present time and should shortly leave for Japan, Western Europe, and the United States. All the local currency expenses are met by the participants, while TCA is meeting the dollar costs. The purpose of the program is just simply to broaden the outlook of some of these young operators of small industry and help them in the adoption or adaptation of methods of business administration used in more advanced countries. This, again, may be called a program of industrial acquaintanceship. Some of the operators included in the program are those that have received loans from the Department of Industry on the Mechanization Program. The field of training is wide open, and most of the assisting agencies, such as the United Nations, Foreign Operations Administration, the Colombo Plan, and the Ford Foundation, are rightly concentrating their attention on this very important issue.

Foreign technical assistance has finally come to stay in Indonesia. The return to Holland and other countries of large numbers of Dutch technicians after the transfer of power left a vacuum which has been difficult to fill. The idea of foreign technical assistance through the well-known agencies has been widely accepted and welcomed in Indonesia, and many of the important projects which had been shelved for a long time are being resuscitated in recent times with the help of foreign technical assistance in a large number of fields. The work of assisting in the rebuilding of a country like Indonesia can be a very challenging one. The small industry program, in particular, is well conceived, and may offer itself as a pattern that can be used with suitable modifications in other areas of the Far East.

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FINANCING ECONOMIC DEVELOPMENT IN INDONESIA¹

The Problem: Financial Resources and Capital Requirements

Frequently the view has been expressed that Southeast Asian countries can be expected to show little economic progress unless foreign financing provides the greater part of investment outlays for development.² Yet some of these countries have embarked on programs of development which tend to restrict the inflow of foreign capital and rely primarily on financing development domestically by inflationary means. The results of these programs have not, by and large, been impressive. This study will attempt to demonstrate that, in the case of Indonesia, the failure of inflationary financing to provide significant increases in output does not imply that a good part of the job cannot be done domestically by other means. Even so, access to foreign capital on a substantially larger scale than that received in recent years may well make the difference between the success or failure of plans to raise output per capita.

Available evidence points to the conclusion that deficit financing by the government has had little effect on the levels of realized investment. On the contrary, these inflationary policies have jeopardized both economic stability and development. The economy has been thrown seriously out of equilibrium with aggregate demand steadily rising without accompanying increases in output. The result has been inflationary price rises in important sectors of the economy which, in turn, have interfered with the government's ability to transfer resources to prosecute the level of real expenditures, capital and current, which it has intended to achieve.³ These results have prompted the Governor of the Bank Indonesia, Sjafruddin Prawiranegara, to make a plea for the curtailment of inflationary financing of investment:

First and foremost, every effort is to be made to curb the inflationary factors, since the near future is causing very great concern in monetary respect. Any expansion of total outlays, either in the Government or in the private sector, interfering further with the equilibrium to the value of the volume of goods and services becoming available in the same period of time, even though they are investment expenditure, should be avoided. Only increased investment attended with reduced consumptive spendings can be deemed justified.⁴

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- (1) This is a revised draft of a paper originally presented at a joint Indonesian Embassy-Center for International Studies meeting on December 21, 1954.
 - (2) For example, the Economic Commission for Asia and the Far East recently estimated that of required capital to provide annual increases in output of two per cent per year for the ECAFE area as a whole (excluding Mainland China and Japan), less than \$2 billion of the \$5 billion required could be provided domestically. Economic Commission for Asia and the Far East (UN), Economic Survey of Asia and the Far East, 1954, Bangkok, 1955, p. xiv.
 - (3) Report of the Governor of the Bank Indonesia for the Financial Year 1954-1955, Djakarta, 1955, p. 52.
 - (4) Ibid., pp. 52-53.

The problem of financing development in Indonesia, therefore, is one of transferring resources to the production of investment goods without greatly expanding the level of aggregate demand. In the conditions which may be expected to exist in the Indonesian economy during the first several years of development, the solution to this problem appears to lie in financing development through the fiscal system. It will be argued that reductions in consumption through taxation will free resources for investment while leaving the level of aggregate demand virtually unchanged. Moreover, the extension of taxation at local levels of government, as proposed below, will add to the economy's supply of productive resources by bringing into use factors of production not presently engaged in economic activity.

Unfortunately there is little analysis available to provide reliable estimates of the amounts of capital required to achieve given economic objectives in Indonesia. Dr. Eugene Grasberg, however, has done pioneering research in this area in his recent papers on Indonesia's capital requirements.⁵ Utilizing the data made available by Dr. Neumark's national income study and other Indonesian materials, Dr. Grasberg has estimated the order of magnitude of annual investment required to achieve a number of major economic goals. These goals are:

1. Maintenance of per capita supplies of all goods and services at 1954-1955 levels;
2. Eliminating import of food and reducing fiber imports by 25 per cent within five years;
3. Avoidance of balance of payments deficits and rebuilding the country's foreign exchange reserves;
4. Compensating in domestic production, over a five year period, for one-half of the reduction in non-food essential imported goods which has occurred during the recent years of retrenchment; and
5. Increasing per capita consumption of all goods by two per cent per year.

According to Grasberg's calculations, maintenance of per capita supplies of all goods and services at 1954-1955 levels, in the face of estimated population growth of 1.5 per cent per annum, would require net annual investment (in 1956) totalling approximately Rp. 5.3 billion. If objectives 1 and 4 (elimination of food imports and reduction of fiber imports by 25 per cent in five years, and compensating for one-half of recent import reductions) are added, total net investment requirements for 1956 would rise to approximately Rp. 6.6 billion. For the four years after 1956, investment required to raise output enough to meet these objectives would rise slightly as depreciation allowances rose pari passu with investment; however, after five years, objectives 1 and 4 would be realized, and investment requirements might therefore fall by about Rp. 1.3 billion.⁶

If, however, the objectives included, in addition, raising per capita consumption of all goods and services by 2 per cent per year, required net investment outlay would rise steeply to approximately Rp. 13.75 billion for 1956, Rp. 14 billion for 1957, Rp. 14.125 billion for 1958, Rp. 14.33 billion for 1959, and Rp. 14.5 billion for 1960.⁷ Over a five-year period, therefore, Grasberg's estimates call for net investment averaging near Rp. 14 billion per year.

- (5) Eugene Grasberg, Indonesia's Investment Requirements, Center for International Studies, Document Control #E/55-20, Cambridge, 1955.
- (6) Ibid., Table 6, p. 29.
- (7) Ibid., p. 29.

Capital requirements of this order of magnitude may somewhat exaggerate the level of investment necessary to achieve the targeted growth objectives. The capital-output ratio employed in the study appears to be unduly pessimistic on the basis of experience in other developing economies. The Economic Commission for Asia and the Far East, for example, has chosen to work with a capital-output ratio of 2.5, in contrast to Grasberg's 4.1.⁸ Thus, for purposes of this paper, it is assumed that net investment approximating Rp. 12 billion annually would raise output enough to provide increases in per capita consumption near 2 per cent. At worst, it is believed that this rate of investment would provide conditions for a successful take-off into a period of sustained economic growth.⁹

At this point in the analysis, it is important to state a number of major premises which will recur throughout the remainder of the argument. These premises and the arguments based upon them may be summarized in the following propositions:

1. The primary inflationary stimuli affecting the Indonesian economy in recent years have been budgetary deficits, now averaging over Rp. 3 billion per year.
2. The impact of the Balance of Payments since the end of the Korean boom has been deflationary and will, in the short-run at least, continue to be mildly deflationary, barring significant changes in world prices for Indonesia's exports.
3. The private savings-investment relationship has been and will continue to be virtually neutral in its monetary impact upon the economy; to the extent that private investment exceeds savings in the short-run, this differential may be assumed to be offset by the inflow of foreign gifts and donations.
4. The development program will require expenditures for investment in foreign exchange as well as in local currency. The foreign exchange component will be estimated to approximate 30 per cent of the level of gross investment and 50 per cent of the new investment added by the development program.
5. In rough terms, this program would call for additional investment expenditures totalling Rp. 6 billion, with half spent domestically and half spent abroad.
6. The total amount of new resources to be mobilized domestically will approximate Rp. 6 billion, while new foreign resources in the neighborhood of Rp. 3 billion are required. This will permit elimination of the present budget deficit in addition to financing the new investment outlays.
7. The additional Rp. 6 billion in domestic resources will represent Rp. 3 billion in tax-enforced reductions in consumption, Rp. 1.5 billion from reductions in the existing level of current expenditures of the central government, and a nearly equivalent amount from the mobilization of

(8) ECAFE, *op. cit.*, p. xiv.

(9) This would provide a rate of net investment of approximately 13 per cent of net national income, which in the terms of W. W. Rostow's analysis, would place Indonesia well into the stage of "take-off", if this rate could be maintained. W. W. Rostow, "The Take-Off into Self-Sustaining Growth", mimeographed, Center for International Studies, Document Control #C/55-18, pp. 16-23.

presently unemployed resources made available by local fiscal processes without involving payments in money. The Rp. 3 billion collected from taxation will generate some inflationary impact upon the economy as it is spent for investment. Assuming that the marginal propensity to consume is less than 1, and the level of private investment will not fall as a result of the direct effects of the taxes, government expenditures will in fact exceed the reduction in private spending by an amount equal to the marginal propensity to save. Moreover, a balanced budget may have inflationary consequences equal to the amount of the new tax-financed expenditures as a result of a lag between the new expenditures and the effect of tax collections. This result could be avoided by deferring government expenditures for development until a surplus to finance them is accumulated from the new revenue sources.

8. The inflationary ingredient of this program--representing at most about 5 per cent of the gross national product--might in fact be necessary to accomplish the transfer of resources to the development program.
9. It is believed that this program will be politically feasible in Indonesia since it calls for little more than enforcement of existing rates of taxation with some transfers of fiscal functions from the central government to localities. It will be argued that this transfer will promote national unity as well as economic development.

The Present Rate of Investment

Before turning to the search for financial resources for new investment, the present rate of investment accomplished by the Indonesian economy requires attention. In this connection, the Neumark estimate of investment for 1952 should be regarded as unrealistically low. Although Neumark reported gross investment approximating 4.5 billion rupiah in this particular year, his estimate for net investment works out to only 600 million rupiah.¹⁰ This is well below the level which appears to emerge from a more detailed Indonesian study based on the year 1953.¹¹ This study placed gross investment at approximately Rp. 9 billion, of which Rp. 1.6 billion represented capital formation by the central government. Employing the most realistic depreciation rates now available for the economy as a whole and correcting for somewhat lower depreciation of governmental facilities,¹² this study would point to a level of net investment in 1953 approximating Rp. 4.7 billion. However, even this estimate does not take account of the substantial amounts of investment carried out at the local levels of government and not subsidized by the central government.¹³ Net investment of this

- (10) D. S. Neumark, "The National Income of Indonesia", Ekonomi dan Keuangan Indonesia, Vol. VII, 1954, pp. 357-358. The estimate of net investment has been obtained by subtracting Neumark's estimate of depreciation (Rp. 4,296.8 million) from his estimate of gross investment.
- (11) This estimate was near completion in 1954 and was shown to the present writer. It has not yet been released for publication. In contrast to the Neumark estimate, the study referred to here is based on extensive reports on private investment as well as analysis of government accounts.
- (12) Neumark employed a depreciation rate of 5 per cent for the economy as a whole and points out that this rate compares favorably with those current in neighboring Southeast Asian countries. Neumark, op. cit., p. 357.
- (13) The 1953 estimate of gross investment included only local investment directly subsidized by the Ministry of the Interior and documented in central government expenditure reports.

type, not reported in government accounts, was estimated to be about Rp. 1.25 billion in 1953.¹⁴ With this addition, we arrive at an estimate of net investment for 1953 amounting to roughly Rp. 6 billion. This estimate may be considered as a provisional measure of the economy's investment performance in a representative year, indicating more favorable prospects for development than reported rates of investment have heretofore suggested.¹⁵ From our point of view, this lump of investment is regarded as a credit against the capital requirements specified above, to which new investible resources may be added.

Sources of Finance

1. Mobilization of Voluntary Savings or Inflationary Government Borrowing. Before we proceed to the main argument, the feasibility of financing Indonesian economic development through public or private mobilization of voluntary savings or, alternately, through continued creation of new money, warrants attention. From the record now available, it is apparent that the banking system and the government have had little success in mobilizing voluntary savings from the economy to finance investment operations during the past five years. The growth of savings accounts has been extremely small relative to the amount of credit extended through the Indonesian credit complex. The supply of money has grown as rapidly as savings accounts in the banking system and government agencies (such as the Post Office Savings Bank). Throughout the period since the transfer of sovereignty, the ratio of savings deposits to total money supply has held fairly steadily near 3 per cent, compared to 19 per cent for India and about 45 per cent for the United States.¹⁶ The Indonesian Government has attempted to encourage the mobilization of private savings by promoting the extension of domestic savings institutions, but the results of this program have been unimpressive.¹⁷ Rather than performing a function in mobilizing savings to finance the economy's investment, the credit system in Indonesia--with the exception of large foreign banks--has been heavily subsidized by the government, and the net impact of the private savings-investment relationship has been somewhat inflationary.¹⁸ It appears highly doubtful, therefore, that the banking system will be effective in mobilizing voluntary savings on a significant scale to finance either private or public developmental expenditures in the near future.

During this same period (1950 to the present) the government has operated, with the exception of one year, at relatively large deficits, financed primarily

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- (14) Douglas S. Paauw, "The Role of Local Finance in Indonesian Economic Development", Ekonomi dan Keuangan Indonesia, Vol. VIII, 1955, p. 12.
 - (15) Assuming the Indonesian Gross National Product was 10 per cent greater in 1953 than Neumark reported for 1952, our estimate would place gross investment at approximately 11 per cent of G.N.P. The latest estimate reported elsewhere places this ratio at 5 per cent. Office of Intelligence Research, Department of State, Report No. 6672, August 25, 1954, p. 3. The Economic Commission for Asia and the Far East reports that "capital formation has been negligible in recent years". ECAFE, op. cit., p. xiv.
 - (16) Douglas S. Paauw, "Financing Economic Development in Indonesia: Public and Private Mobilization of Voluntary Savings", Ekonomi dan Keuangan Indonesia, Vol. VIII, 1955, p. 209.
 - (17) Total savings mobilized by all financial institutions amounted to less than Rp. 400 million at the end of 1954, representing new net savings of about Rp. 120 million for 1954.
 - (18) Paauw, "Financing Economic Development...", op. cit., pp. 210, 213.

by inflationary borrowing from the Central Bank. The Minister of Finance reported in June 1955 that post-independence deficits totalled Rp. 9,966 million by the end of 1954, of which Rp. 6,474 million was financed by borrowing from the Bank Indonesia and much of the remainder by revaluation of Indonesia's gold stock.¹⁹ Through stringent stabilization policies the inflationary effects of this pattern of financing was held in check until 1954.²⁰ However, by 1955, threatening inflationary tendencies were apparent, and it was clear that continued inflationary financing on the scale recently undertaken would seriously undermine the stability of the Indonesian economy.²¹

Limited evidence points to the conclusion that the pre-1954 stabilization policies of the Indonesian Government were effective in "neutralizing" at least part of the new money put into circulation through deficit financing. It appears that the velocity of money in circulation was reduced and that cash and near-cash balances grew rapidly in this period,²² held against the day when they could be converted into the desired (primarily imported) goods. However, with the appearance of active inflationary tendencies in 1955, it appears that these balances are putting increased pressures on the free market rate of the rupiah and domestic commodity prices. These pressures are associated with conversions of cash balances into goods or foreign currencies as domestic price rises are becoming more ominous.

It should be pointed out, incidentally, that the existence of these balances in the face of inflationary pressures does not augur well for the mobilization of private savings as a deflationary means of financing economic development. To the extent that these balances would be mopped up for transfer to the government or private entrepreneurs for development financing, their impact would be as inflationary as the creation of new money. Moreover, it is doubtful whether the owners of these balances would be willing to part with liquidity by purchasing government securities or gaining title to savings accounts. If they are held for the motives suggested above, and are already being converted to goods as a result of inflationary price rises, their owners undoubtedly wish to maintain the highest degree of liquidity by continuing to hold cash.

2. The Fiscal System. If these observations are correct, the use of inflationary financing to support either current or developmental expenditures will tend to have a multiplier effect on prices as inflation induced by the government deficit shakes loose the cash balances withheld from previous income streams. The launching of a development program in the conditions of this monetary overhang implies that inflationary financing must be restricted if economic stability is to be maintained. Hence, it is my contention that during the first years of development, financing should come mainly from reductions in current consumption forced through fiscal measures. This type of financing will limit the additions of new money to the income stream, and may, in fact, be neutral in monetary impact if tax revenues are, in fact, collected before they are spent on developmental investment.

(19) Antara (Indonesian Edition), June 14, 1955.

(20) Benjamin Higgins, Economic Stabilization and Development in Indonesia, revised mimeograph edition, 1955, pp. 20-21.

(21) Ibid., pp. 21-22.

(22) C. F. Scheffer, "A Note on the Monetary Analysis by the Governor of the Bank Indonesia", Ekonomi dan Keuangan Indonesia, Vol. VII, 1954, pp. 652-657; National Planning Bureau, "Indonesia's Economic and Social Developments in 1954", Ekonomi dan Keuangan Indonesia, Vol. VIII, 1955, pp. 360-361.

The argument, from this point, will seek to demonstrate that additions to the present rate of investment can be financed from resources made available through the fiscal system, and that these additions could go far toward meeting capital requirements for the take-off into sustained economic growth. The argument suggests that additional resources can be provided (1) from tax-enforced reductions in consumption, (2) by bringing into productive activity presently unemployed resources, and (3) by reducing the level of the central government's current expenditures--all through fiscal changes which are consistent with the present administrative capabilities of the various levels of Indonesian government. On the more economic side, the argument rests, in part, on the premise that the present pattern of consumption will bear reductions by more effective enforcement of the central government's present structure of progressive tax rates against the society's upper incomes, and by extended income taxation in the rural sector at relatively low rates of taxation.

It is difficult to document from empirical studies the existence of areas of taxable capacity which could be reached to mobilize resources for development through the fiscal system without socially harmful effects on levels of consumption. Yet certain general conclusions appear to be warranted from analysis of recent data and the beginnings of empirical research. In the first place, it seems safe to conclude that income has risen in the rural sector of the economy, relative to the non-rural sector.²³ Secondly, recent studies indicate that, in some areas at least, a new class of relatively high income recipients has emerged in the rural sector²⁴ and that, similarly, in some localities general per capita income increases have been realized.²⁵ Thirdly, it is clear that the tax burden upon the rural sector has fallen relative to incomes in this sector and that the rising incomes among particular groups and localities are, by and large, escaping tax levies on marginal income increases.²⁶ Finally, there is evidence which suggests that significant amounts of under-employed factors of production exist in the rural sector of the economy and that these, too, may be mobilized for investment purposes through fiscal operations of the lower levels of government.²⁷ This method of investment financing is already effectively employed in some areas of Indonesia.

In the non-rural sector of the economy, relatively high tax rates are nominally applicable to personal and business incomes.²⁸ However, even in this

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- (23) Neumark, op. cit., p. 351, for example, reports that "farmers...were absolutely and relatively better off in 1951 and 1952 than in 1938." Also see Douglas S. Paauw, "The Tax Burden and Economic Development", Ekonomi dan Keuangan Indonesia, Vol. VII, 1954, p. 568.
- (24) This conclusion, reported in my article "The Tax Burden...", op. cit., p. 571, emerges from unpublished studies undertaken by the Institute of Social and Economic Research at the University of Indonesia.
- (25) Paauw, "The Role of Local Finance...", op. cit., p. 13.
- (26) J. A. van Veen, "Some Notes on 'The Tax Burden and Economic Development in Indonesia'", Ekonomi dan Keuangan Indonesia, Vol. VII, 1954, pp. 766-767; and Paauw, "The Role of Local Finance...", op. cit., pp. 8, 13-14.
- (27) Paauw, "The Role of Local Finance...", op. cit., pp. 9-11.
- (28) The effective income tax rates in force today begin at 3 per cent and rise to 55 per cent, with a marginal rate of 75 per cent applicable on each 100 rupiah of income above Rp. 300,000. The corporation tax rates vary from 40 to 52.5 per cent of net profits, with lower rates (25 to 40 per cent) in force for new firms during the first five years of their existence.

sector, strict enforcement of the legal rates of these taxes against liable income is found only in the larger cities where central fiscal offices are actually located. In outlying cities and towns, an attempt is made to enforce these taxes through representatives of these offices. In addition, however, the central fiscal offices in the various provinces, provided with small enforcement staffs, are responsible for collecting a large number of low-yielding taxes, many of which involve complex enforcement procedures. With relief from responsibility for collecting these relatively unremunerative levies, the addition of collection personnel, and improved communications, fiscal officials in the areas studied indicated that yields from the two major revenue producers under their jurisdiction in areas outside Djakarta could at least be doubled.²⁹ Allowing for the loss of revenue from abolishing such high-cost collection taxes as the reconstruction tax (a tax on restaurants), the urban real estate tax, and the household property tax, it is estimated that strict enforcement of the income tax and corporation tax in the non-rural sector could increase revenues by Rp. 1 billion.³⁰

Direct taxation of the rural sector of the economy--which is the prerogative of the central government--is currently undertaken through a complex division of labor between the central government's fiscal offices in localities and local officials. Under the Dutch, rural incomes were subject to a land tax, abolished by the Indonesians in 1951. In its place, the so-called "rural income tax" (padjak peralihan ketjil) was established, applicable not only to income from land but to all income outside the reach of tax authorities in larger cities and towns. The land tax had been administered by the Dutch, typically, through their system of indirect rule. Local officials, supervised by central authorities, performed the actual collection of the tax, retaining a specified percentage of their collections as personal income. When the rural income tax was put into effect by the Indonesians in 1951, the central government did not have adequate administrative personnel to enforce the tax directly. As a result, this tax, too, has been farmed out to local officials for collection, with some important variations between Java and the Outer Islands. On Java, the rural income tax resembles the colonial land tax in almost every detail. Local officials are responsible for its collection up to specified amounts,³¹ and it continues to be a tax on land collected at nominal rates in force before World War II. The local collecting official is still allowed to retain a personal share of revenues collected. On the Outer Islands, the tax is collected exclusively by local officials, theoretically supervised by the central fiscal offices in the locality. In practice central officials rarely penetrate into the villages. In these areas, where the colonial land tax never had a firm foothold, the rural income tax, to the extent it is enforced, is assessed at the rates which the 1951 statute provides.

In 1953, total income tax collections received by the central government from the rural sector amounted to only Rp. 66 million; with proceeds of Rp. 30 million from Java and Rp. 36 million from the Outer Islands. Yet the rural sector produced in 1952 Rp. 65.2 billion of Indonesia's national income of 81.6 billion (81 per cent of the total).³² The rural income tax contributed less than 1 per cent of total tax collections in 1953, compared with land tax collections comprising 7 per cent of the total in 1939.

(29) Paauw, "The Role of Local Finance...", *op. cit.*, p. 8.

(30) This estimate is based on tax collections for the year 1953 and is calculated from data on yields from income taxation by sectors made available to the author by the Ministry of Finance.

(31) Rp. 3,400 in East Java; Rp. 5,000 in West Java.

(32) Paauw, "The Tax Burden...", *op. cit.*, p. 568.

It appears clear that direct taxation of the rural sector of the economy is ineffective in mobilizing resources for the finance of government expenditures, current or developmental. This conclusion is borne out by empirical research in localities on Java and the outlying islands. Upper incomes in the rural sector received by traders, lenders, and landlords are by and large not reached by income taxation; on Java, local collectors attempt to keep income assessments low so that local collectors may share in the proceeds. On Sumatra, tax collectors--who are, in fact, local officials--make no effort to maximize income tax collections in the rural sector since all receipts are turned over to the central government. In one area, on Sumatra, a drive by central tax officials to enforce taxation of upper incomes in the rural sector, tripled central receipts.³³

In the areas of Indonesia which I investigated, local fiscal officials at the provincial, *kabupaten*, and village levels indicated that the transfer of the rural income tax to these levels of government would, in all probability, make them financially independent of the central government and would also permit a higher rate of local investment.³⁴ In 1954, central subsidies to local governments amounted to approximately Rp. 2.5 billion. If the rural income tax were transferred to local levels of government, where it could be more effectively collected, central government subsidies for the finance of local government could be considerably reduced, if not eliminated, yielding savings to the central government budget of at least Rp. 2 billion annually. It is clear that the central government itself will not have the administrative facilities to mobilize collections in this amount from the rural income tax for an indefinitely long time.

Financial resources for development might well be provided by paring down the level of non-subsidy current expenditures supported by the central budget. Recent students of the Indonesian budget have suggested that strenuous economy efforts by the various Ministries represented in the budget could result in reducing current expenditures by at least Rp. 1.5 billion, while the existing level of administration could be maintained. An aggressive development program of the scope outlined here might well absorb the resource transfers from such reductions without causing serious dislocation.

A commonly overlooked item in the search for new investment resources for development is the amount of new local investment which might be encouraged by fiscal and administrative reform which would grant increased autonomy to local levels of government. The investment operations of provincial and *kabupaten* levels of government now require central government approval of investment plans, and central financing. Yet these projects, in large part, could be "financed" locally from underemployed labor resources, mobilized directly without expanding the flow of income payments.³⁵ In the areas of Indonesia which I visited, I found

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- (33) All of these conclusions are drawn from my earlier study, "The Role of Local Finance...", *op. cit.*
- (34) These levels of government now have no important, legally-provided sources of income.
- (35) The Governor of the Bank Indonesia makes this point in the following terms: "In many of the regions which offer no possibility of money investment, mosques and schools are built, roads and bridges constructed or repaired, etc. Based on the *gotong rojong* system (i. e., mutual aid), a social institution typical of the Indonesian village and countryside, savings in kind--wood, bricks, sand, together with the available implements and manpower--are utilized to undertake investments. This kind of Indonesian economic reality is familiar to the *daerahs*; they know its limitations and they know its possibilities. And once they are thrown

a dramatic urge for local improvement through local investment projects. In these areas, provincial and kabupaten fiscal officials strongly indicated that if they were given carte blanche on planning and financing of investment projects within their jurisdiction, the amount of local investment realized from under-employed resources of production could be significantly increased. While it is extremely hazardous to place a statistical value on the amount of new investment resources which could be mobilized through the extension of greater autonomy to localities (including transfer of the rural income tax), it appears that the present level of local capital formation could at least be doubled.³⁶ This would provide additional investment resources at local levels of government in the amount of Rp. 1.25 billion; my own presumption is that the rate of local investment would be accelerated much beyond this estimate.

We are now in a position to put together our total estimate of investment resources currently available to the economy plus those which could conceivably be made available to the central government through the fiscal changes suggested here. The results of our analysis are presented in Table I.

Table I

Total Investment Resources (Domestic)

(In billions of rupiah)

A. Estimated Actual Investment (1953)

1. Gross	9.00
2. Depreciation	- 4.30
Net	4.70
3. Addition of unreported local investment	1.25
Corrected net total	5.95

B. Additional Potential Investible Resources

1. Increased yields from business and personal income taxation	1.00
2. Increased yields from rural income taxation (reduction of subsidies to localities)	2.00
3. Reduction in central government current expenditures	1.50
4. Increased local investment	1.25
Total (B)	5.75

C. Total 11.70

on their own resources by financial autonomy, they will have no need to draw exclusively upon money means but will have also at their disposal 'real' capital resources: goods and services". Report of the Governor of the Bank Indonesia for the Financial Year 1954-1955, op. cit., p. 20.

- (36) On Java and Sumatra local officials consistently estimated that this change would considerably more than double the current rate of local investment. We have estimated total local investment for 1953 at Rp. 1.25 billion.

This estimate of the economy's potential investment resources is based on the estimated level of net investment now being performed by the economy plus fiscal resources which could be mobilized for development at existing tax rates and given a reduction in current expenditures, other than subsidies to localities, of about 11 per cent below the 1954 level. Item (B)-1 in the preceding table, representing a net increase in yields from business and personal income taxation (Rp. 1 billion), requires stricter enforcement of existing tax rates and the abandonment of minor revenue producers which are costly in terms of administration. Item (B)-2, increased yields from rural income taxation (Rp. 2 billion), requires transfer of this tax to local governments. This transfer would add to central resources for investment by reducing subsidies to localities, now running about Rp. 2.5 billion per year. Item (B)-3, reduction in current central government expenditures (Rp. 1.5 billion), requires more stringent budgetary control and somewhat simplified administration. Item (B)-4, increased local investment (Rp. 1.25 billion), requires granting greater autonomy to localities in investment activities, including the right to mobilize resources locally.

Of the total new investible resources detailed in Table I, Rp. 3 billion comprise effective reductions in the level of consumer expenditures or savings (increased central and local tax revenues); Rp. 1.5 billion represents the diversion of present government expenditures for resources for current purposes to investment; and Rp. 1.25 billion represents direct local mobilization of currently unemployed or underemployed resources, not involving monetary taxation and monetary expenditure. This latter would comprise a net addition to the economy's utilized resources, while not generating new income payments and consequent expansion of demand for consumer goods. If the assumptions made are realistic, this means that goods available for consumption need be reduced by Rp. 3 billion to provide financing on the scale posited in Table I, with no more than a mildly inflationary impact upon the economy. This increased tax take would presumably come largely from reductions in consumption of non-food and non-essential goods, whose value is estimated to reach Rp. 11.65 billion in 1956 if Grasberg's minimum capital requirements are met.³⁷ Since tax rates applicable to business and personal income taxation are highly progressive and the rural income tax would not cut deeply into personal incomes, these taxes would tend to leave consumption of food and other necessities (estimated to total Rp. 72.3 billion in 1956) relatively untouched.

The estimates of the present rate of domestic investment presented here suggests that the Indonesian economy today is capable of maintaining the 1954-1955 levels of per capita consumption, limited though they were by the government's retrenchment policies. Grasberg's estimate of net investment necessary to achieve this goal was placed at Rp. 5.3 billion; we have estimated that net investment approaching 6 billion was accomplished in 1953. However, the rate of investment now performed is scarcely adequate to restore levels of consumption to the position of 1952 before retrenchment was begun, and is inadequate to build up the country's foreign exchange reserves by gradual reduction of the import of items which can be produced in Indonesia by expanded investment. This underlines the necessity for mobilizing additional financial resources for an aggressive development program if at the minimum, short run economic stability is to be achieved.

The public component of developmental investment required to meet targeted growth rates might well be reduced by the expansion of domestic private investment. It is reasonable to expect that private investment would increase in the atmosphere of expansion created by a government-sponsored development program, particularly since this program would counteract the recent inflationary

(37) Grasberg, *op. cit.*, Table 5.

tendencies in the economy. New profit opportunities should arise as external economies, industrial raw materials, and an increasingly skilled labor force emerge. It would be hoped that the expansion of private investment could be financed by mobilization of voluntary savings from current income through private banking channels; in fact, government policy should be aimed at developing the Indonesian banking system to assume, at a minimum, this role in the financing of Indonesian economic development.³⁸

The Importance of Foreign Capital

An inflow of foreign capital to complement the mobilization of domestic investible resources in financing Indonesian economic development is important, in fact critical, for a number of reasons. In the first place, mobilization of domestic resources by fiscal methods, under the conditions described in this paper, falls short of providing the level of financing needed to balance the budget and to provide resources to meet the capital requirements accepted here. At the present level of government expenditures (about Rp. 15 billion per year gross), the government has been operating at an annual budgetary deficit averaging over Rp. 3 billion. Thus total financial requirements to achieve the objectives of stability and development approximate Rp. 15 billion while the economy appears to be capable of supplying Rp. 12 billion in domestic savings through the program described here. Unless external funds are made available, a development program of the size indicated by the estimate of Indonesia's capital requirements would require continued inflationary financing jeopardizing both the economy's stability and development.³⁹

An inflow of foreign capital is also required to finance the foreign exchange expenditures involved in launching a development program on the scale considered here. In an economy with an underdeveloped industrial structure, an important share of the physical capital goods for development, and in the case of Indonesia, of the raw materials for industrial production, must in the short run be obtained from abroad. We know little about the required foreign trade ingredient of capital formation in countries at the stage of Indonesia's development, but a preliminary estimate may be ventured on the basis of Indonesia's own experience and estimated requirements for its development program.

In 1953, the year employed as the basis of the estimated rate of investment, reported imports of physical capital goods totalled Rp. 1.44 billion (about 14 per cent of estimated gross investment). However, more careful analysis of the import account would place the actual ratio at about 20 per cent. It is realistic to believe that the ratio of the imported capital component to total investment would rise as a development program got underway. Investment realized in the Indonesian economy in 1953, apart from government capital formation, appears to have been accomplished predominantly in the agricultural sector, small-scale industry, and construction. In these sectors, the performance of investment is less capital intensive than in the extension of the

(38) This point is expanded in my paper, "Financing Economic Development...", op. cit.

(39) Indonesia's National Planning Bureau has recently emphasized the importance of reducing inflationary pressures if economic development is to be seriously undertaken. In their recent report the following statement is put forth: "The Five-Year Development Plan, which is now a subject of study of the Planning Bureau, would not be workable if a persistent budgetary deficit disturbing the necessary economic balance is not eliminated in a reasonable period of time". National Planning Bureau, op. cit., p. 411.

economy's social overhead investment and the development of an industrial base which are dominant in Indonesia's present five year plan.⁴⁰

If the allocation of Indonesian investment in the next five years follows the contours of this five year plan, it is reasonable to suppose that the import component of gross investment would be considerably above the present ratio. If the Planning Bureau estimate of 50 per cent in foreign exchange costs (for the five year plan) is employed for the additional gross investment called for by our program, the average import component would work out to approximately 31 per cent.⁴¹ If anything, this estimate would be on the conservative side since the present pattern of investment might be partially shifted to sectors where investment would require a higher import component. To a limited extent, this would be offset by the fact that the pattern of financing outlined here would in part rely on the use of localized resources for labor-intensive investment.

It appears clear that foreign exchange requirements of this order of magnitude will remain beyond the foreign exchange earning capacity of the Indonesian economy over the life of a short-run development program (e. g., five years), thus underlining the need for foreign capital in financing the development program. Since 1952, the Indonesian government has strictly limited the use of foreign exchange for the import of consumer goods; import of capital equipment and raw materials have comprised an increasingly large share of the country's total imports.⁴² By 1954, it was apparent that the import of consumer goods could be reduced no further without reductions in the supply of basic necessities in the economy. In fact, in that year it was felt that "there are limitations that can be achieved in the consumption sector [of the import accounts]; after a certain point further reductions in supplies being increasingly difficult to bear. Therefore, to achieve the required decrease in foreign exchange expenditure some reductions in the productive sector [of the import account] were unavoidable."⁴³ Even so, the import of consumer goods was reduced 33.33% below the 1953 level.⁴⁴ On the other hand, the ability of the economy to earn significantly greater amounts of foreign exchange in the

(40) The proposed allocation of investment resources in this plan among major sectors is as follows: industry and mining, 25 per cent; public power and irrigation, 25 per cent; transport and communications, 25 per cent; education, health, and other social, 13 per cent; agriculture and transmigration, 12 per cent. Dr. Djuanda, Director of the National Planning Bureau, estimated that it would be necessary to devote 50 per cent of the Plan's investment resources to meeting foreign exchange costs of these investment projects. Antara Daily News Bulletin, Amsterdam edition, March 17, 1955, p. 1.

(41) The present level of gross investment is estimated to be Rp. 10 billion with an existing import component of 20 per cent, and a 50 per cent import component is assumed for the additional investment of Rp. 6 billion. Thus, the average import component for the total investment of Rp. 6 billion would be

$$\frac{1}{16}[(.2 \times 10) + (.5 \times 6)] = .3125$$

(42) 45.3 per cent in 1952, 53.8 per cent in 1953, and 57.9 per cent in 1954 (January to September), Bank Indonesia Bulletin, Third Quarter 1954, Jakarta, 1954, p. 19.

(43) National Planning Bureau, op. cit., p. 369. Brackets denote my addition.

(44) Ibid.

short-run is extremely doubtful, barring fortuitous rises in world prices for Indonesia's major exports. What surpluses are earned must, for some time to come, be used to build up Indonesia's foreign exchange reserves, which have fallen to dangerously low levels.⁴⁵ Thus, it seems safe to conclude that the import of capital goods for an expanded development program cannot be financed from increased export earnings or by providing foreign exchange from further reductions in the present levels of consumer goods imports or raw materials for domestic industrial production.

Employing the assumed ratio of foreign capital goods to gross investment (about 31 per cent), the present level of investment and a development program of the magnitude proposed here would involve about Rp. 5 billion in direct import costs. Assuming that the present level of capital imports will be maintained in the short run from the present balance of payment resources, the development program outlined here would entail Rp. 3 billion (about U.S. \$260 million) in additional foreign exchange costs for realizing investment. Like investment requirements themselves, these costs would increase each year as a larger base against which replacement for depreciation must be made is accumulated. Thus, it is clear that at least Rp. 3 billion must be forthcoming each year from external sources if the Indonesian development program is to achieve the scope and momentum necessary to bring significant increases in per capita output.

Financing Economic Development in Indonesia: Some Implications

A major implication of the pattern of financing outlined here is that mobilization of investment resources and the administration of development investment itself would be carried out by local governments as well as by the central government. About 21 per cent of the new resources for development would be available only to local governments and, to this extent, investment would be prosecuted on a decentralized basis rather than through the central government. The question then occurs as to whether or not local administrative facilities are available to carry out investment at these levels of government. My own impression is that a reservoir of competent officials, not fully utilized under the present system of inter-governmental division of functions, exists at these levels. A more serious economic question is whether or not the resources made available at the local level could be integrated into a general development program aimed at increasing production. The problem is that resources mobilized by localities tend, by their nature, to be highly localized. However, it is my opinion that Indonesia's development program will have to concentrate in part on providing basic local facilities such as irrigation works, transportation facilities, and small-scale, state-operated productive enterprises. What evidence we have suggests that local investment resources can most easily be mobilized in the outlying islands, where these facilities are most lacking. In my experience, local governments already assign high priority to productive projects and allocate resources on the basis of estimates of the productivity of alternate uses.⁴⁶ Thus, it appears that diversion of local financial resources to projects related to the country's economic growth is not an insurmountable problem. Moreover, the degree of decentralization implicit in the composition of fiscal and financial resources suggested by this study may well ease the process of transformation of financial resources into productive

(45) In mid-1954, it became necessary for the government to suspend the 20 per cent minimum gold and foreign exchange reserve requirement behind the current liabilities of the Central Bank.

(46) In fact, in one area, I found rather sophisticated use of capital-output ratios to establish investment criteria.

capital goods. Japan's experience suggests that capital formation in the sectors appropriate to local investment and the early stages of development can largely be realized from conversion of resources available to the underdeveloped economy.⁴⁷

All available evidence points to the conclusion that an expanded role for local governments in Indonesia's economic development would not only add to the dynamic quality of the development program, but that it would also promote national unity. Dr. Sjafruddin, Governor of the Bank Indonesia, has long urged that greater financial autonomy be granted to localities for these reasons. His views on this matter have been stated frequently in the Annual Reports of the Bank and are most forcefully put in the 1954-1955 Report: "A system of subsidies such as exists at present is apt to undermine the sense of responsibility and to kill all local initiative and ingenuity...Daerahs can be divided into active and less active ones. The active ones feel themselves suppressed by their subordination to the Central Government; the less active ones, not being confronted with responsibilities, are never stirred out of their lethargy...Greater financial independence will stimulate the autonomous territories into higher activity and a greater display of energy. If the responsibility for certain revenue is left to local authorities instead of to the Central Government, receipts would presumably be far more substantial, first, because local authorities have a better knowledge of local conditions, second, because the regions own interest is at stake...The feeling of being suppressed by a Central Government unwilling or unable to furnish the means for financing certain projects would be gone."⁴⁸

Finally, this program may well tend to allay some of the existing political objections to foreign participation in the financing of Indonesian economic development. Recognition of the fact that domestic financing of investment entails sacrifice in the way of reduced consumption may well add to the attractiveness of foreign capital. Again, the fact that the program outlined here calls for substantial domestic financing implies that the domestically-owned sector will be rapidly expanded relative to the foreign-owned sector, even if foreign capital enters as direct investment. New productive facilities will be primarily Indonesian-owned, and the scope of foreign ownership will be circumscribed by the overall financing of the program itself. If it is clear that the indigenous role will be the dominant one in financing and prosecuting development, fear of foreign domination in the modern sector may be considerably reduced and foreign capital may be welcomed as a complement in the total program for Indonesia's economic progress.

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(47) W. W. Lockwood, The Economic Development of Japan, Princeton, 1955, Chap. 5, esp. pp. 246, 301.

(48) Report of the Governor of the Bank Indonesia for the Financial Year 1954-1955, op. cit., pp. 18-19.

THE TRADE AND PAYMENTS AGREEMENTS PROGRAM OF INDONESIA, 1950-1955

Since the end of the Second World War, most countries, with the exception of the so-called "dollar" countries, found it necessary to maintain systems of exchange controls.¹ These controls were felt necessary to protect the balance of payments from the special pressures to which it was subjected during this period. In the years immediately following the war, these pressures originated largely in the heavy demand for imports--imports required for reconstruction and for re-establishing customary standards of living--at a time when export capacity was limited by severe wartime destruction and disruption in many of the economies concerned.

By the beginning of the '50's the more industrialized countries, particularly those of Western Europe, had completed their reconstruction and had achieved a rate of productivity increase which permitted them progressively to dismantle or liberalize their respective exchange controls, trade agreements, and commercial agreements. In contrast, the process of economic development in the underdeveloped countries has continued to exert sufficient pressure upon balance of payments in these countries so that for the most part they have maintained fairly elaborate systems of controls and agreements.

The basic objective of these controls and agreements has been to protect the balance of payments. They have, however, also been used as devices to protect domestic industry--particularly those considered "infant"--as a basis from which to negotiate commercial advantages, and for purposes of revenue. It should be noted, however, that to the extent that a particular control is effectively protective, it is ineffective as a revenue raiser.

The various devices by which governments control the operation of their foreign exchange markets are conventionally divided into quantitative controls that place specific quantitative limitations, including complete limitation or outright prohibition, on payments for specified purposes; and cost restrictions which seek to control by increasing the cost of foreign exchange when it is to be used for particular transactions. With systems of control of varying degrees of severity in wide use, most non-dollar countries found it necessary to establish intergovernmental agreements with respect to methods of payment or to the goods and services to be traded.

The Indonesian system of exchange controls, as it has evolved since the transfer of sovereignty, combines the use of both quantitative and cost restrictions. Imports and exports, both visible and invisible, have been subject to licensing. In addition, there has been in existence throughout most of this period a system of differential import surcharges for specified groups of commodities, which, coupled with a system of export duties that have been modified from time to time in response to market conditions, has in effect given Indonesia a multiple exchange rate system. The system of import surcharges has rather successfully combined the protective and revenue objectives by applying relatively lower rates (0%, 33 1/3%, or 50%) to essentials with relatively inelastic demands, higher rates to "luxuries", and prohibitive rates to "unnecessary luxuries" and goods which compete with Indonesian commodities. In order to solve its payments problems and to maintain its level

(1) Cf. R. E. Mikesell, Foreign Exchange in the Post War World, for an extended discussion of these arrangements.

of trade in the face of both its own and its trading partners' system of controls, Indonesia has negotiated a series of trade and payments agreements. It is with these agreements, rather than with the underlying system of controls, that we are primarily concerned in this paper.

Prior to 1949, Indonesia, being considered by the Dutch as still part of their empire, was included, when appropriate, in trade and payments agreements concluded by the Netherlands. In the provisions for transfer of sovereignty negotiated at the Round Table Conference in late 1949, it was stipulated that Indonesia would assume all of the rights and obligations negotiated for her in the then-existing twenty-six joint trade and payments agreements (Cf. Article 21, Paragraph 7, Draft Financial and Economic Agreement). In addition, there was a provision for continuation of a joint commercial policy with respect to third European countries pending further review (Cf. Article 21, Paragraph 2, Draft Financial and Economic Agreement).²

At the second Ministers' Conference in November 1950, it was agreed that Indonesia could thenceforth conclude separate trade agreements with third European countries.³

Recognizing the strategic, almost dominant role that foreign trade plays in her economy and in the government's fiscal resources, an ever-increasing amount of attention has been devoted by the Indonesian Government to the development of a system of trade and payments agreements with trading partners actual and potential.

The system of agreements produced by the extensive effort is described in Part I of this paper; Part II assesses the "design" of the agreements program and its impact upon trade to date.

I

We start with Indonesia's main trading partners: The Netherlands, Singapore, the United States, and Japan.

A. The Netherlands. The Netherlands has continued to play an important role in Indonesia's foreign trade, and the framework within which this trade with the former metropolis has been conducted was laid down in its essentials in the economic clauses attached to the Round Table Agreement. In this sense that agreement can be considered Indonesia's first trade or payments agreement. The relations deriving from the Round Table Agreement are largely of a payments nature.

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- (2) In this connection it should be noted that one of the major economic gains derived by the Dutch from the previous colonial position of Indonesia had been the channelling of a large entrepot trade through the home country, and that this trade was largely with the continental countries.
 - (3) It was agreed at the Round Table Conference that subsequent to the transfer of sovereignty a "Union" should be established between the two sovereign governments of the Netherlands and Indonesia. One feature of the union was to be the holding of a Conference of Ministers from the two governments semi-annually. Only the first two of these Conferences were ever held, the Union itself never really materializing.

Prior to the transfer of sovereignty the Netherlands maintained seven accounts through which payments between Indonesia and the Netherlands were cleared. These were:

1. The Commercial Account, through which most direct current merchandise payments were made. Excluded were Indonesian imports of capital goods and Indonesian goods in transit via the Netherlands. This account provided for a swing credit of 15 million guilders.
2. The Transit Account, covering payments on account of transit trade, and, in addition, payments in settlement of trade with third countries covered by joint payments agreements.
3. The Treasury Account, through which were cleared intergovernment service payments, including bond flotation and redemption, interest, pensions, and material purchases.
4. The Financial Account, for the settlement of all service items for private account.
5. The Reconstruction Account, through which Indonesia purchased capital equipment not settled through the Commercial Account and through which new investments were made in Indonesia.
6. The Bretton Woods Account, through which Indonesian participation in the Dutch membership in the Fund and Bank was effected.
7. The United Kingdom Monetary Agreement Swing Margin Account, through which Indonesia was allocated a 50% participation in a swing credit of £10 million granted the Netherlands by the United Kingdom, i. e., a credit of 53 million guilders (£5 million) upon which Indonesia could draw.

At the transfer of sovereignty the Treasury Account debit balance of 927 million guilders, the Financial Account debit balance of 706.5 million guilders, and as yet unbooked items for these accounts amounting to an Indonesian debit of 336.4 million guilders were cancelled--a total reduction of two billion guilders. The Indonesian government, on the other hand, assumed the 40 million guilder debit balance of the Commercial Account, the 80 million guilder debit on Reconstruction Account, the 95.5 million guilder debit on Bretton Woods Account, and the credit extended to Indonesia under the U. K. agreement.

The balance on the Reconstruction Account was converted to a long-term loan, part of a 280 million guilder credit by the Netherlands, the remaining 200 million guilders to be used to finance Indonesian deficits on Current Account until July 1, 1951. This was later extended to December 31, 1951, by the Second Ministers' Conference in 1950.

The so-called "A" Accounts were established in their respective Central Banks to serve as the accounts of settlement for direct Dutch-Indonesian commercial and financial transactions, transit trade, and payments to third countries covered by payments agreements. The mechanics of operation of these accounts were spelled out in the Dutch-Indonesian Payments Agreement, April 1, 1950. A swing margin of 25 million guilders, which in practice means a Dutch "line of credit" to Indonesia, is provided for in the "A" Account. The working balances held by Indonesian banks in the Netherlands are deducted from the balance in favor of the Netherlands, and in addition, 80% of Indonesian tin ore and sheets, in Holland or afloat, which have not been pre-financed by the United States, are also deducted from the balance in the Netherlands' favor. There is, on the other hand, an addition to Indonesia's debits in the "A"

Account equivalent to 30% of the value of letters of credits opened in Holland by Indonesian principals but for purchases in third countries. These letters of credit are expressed in guilders, but the Dutch bank in turn opens a letter of credit in the currency in which final payment is to be made. This involves the Dutch bank in a forward position in foreign exchange, to cover which she would normally buy "spot" the currency involved. The 30% debit to Indonesia is to compensate for this cover required by Indonesian use of Dutch banking facilities.

Finally, Indonesia has, within limits, the right to purchase foreign currencies from the Netherlands against payment of Dutch guilders.

At the second Ministers' Conference in late 1950 it was also agreed that while Indonesia could conclude separate trade agreements with European countries, she could, if she so chose, continue to use the "A" Account as the mechanism of settlement with such third countries. In general she has so opted in her dealings with the countries of Western Europe. From this arrangement Indonesia derives a relationship with the European Payments Union usually designated as an "associate membership". Indonesia is not obligated to fulfill the trade liberalization obligations of a member of the EPU, nor is she extended EPU credit facilities, but she can use the mutual transferability of EPU currencies,⁴ and her goods are accorded the liberalized treatment extended by one member of the EPU to the goods of another member.

B. Singapore.⁵ Singapore's trade with Indonesia is largely of an entrepot nature and is far more important with respect to Indonesian exports than imports. In addition, remilling and processing of Indonesian rubber has been a major economic activity in Singapore and Malaya. Since the relations between Indonesia and Singapore are largely commercial (in the sense that the latter are not large final markets for Indonesian exports or original sources of Indonesian imports), the explicit arrangements between them are limited to payments arrangements. The nature of the payments relations between the two countries are to a large degree determined by Singapore's membership in the Netherlands Monetary Area. The Netherlands is a transferable account country. Thus Indonesia, in the post-war period, has had access to the transfer facilities of transferable sterling. In addition, Indonesia has two arrangements with Singapore pertaining to payments, both embodying revision of a 1948 agreement between the United Kingdom and the Netherlands. First, she is entitled to receive US dollars for transit trade through Singapore to the United States. This arrangement applies only to transit trade in Indonesian rubber, forest products, and spices, other Indonesian exports being excluded. The determination of the total amount of trade to be considered as "Indonesian exports through Singapore to the United States" is based upon the following calculation:

$$\frac{\text{Quantum of Singapore exports to US}}{\text{Quantum of total Singapore exports}} \times \frac{\text{Quantum of Singapore imports from Indonesia}}$$

valued at the average monthly buying price in Singapore (Malaya), the calculation to be made monthly and applied separately to Singapore and to Malayan exports and separately to each quality of rubber, forest product, and spice imported from Indonesia.

- (4) The element of transferability provided by the EPU is of especial relevance to Indonesia, as she typically has an active balance of trade with member countries taken together; with individual countries she has for some periods run deficits, e. g., Belgium.
- (5) We will refer to the double entity, "Singapore and Malaya", as simply Singapore.

This calculation establishes the "conversion rights" of Indonesia, and these conversion rights can be accumulated and carried forward from one year to the next. The experience to date under this agreement is summarized in Table I.

Parenthetically, we might note that the appearance of "Registered Sterling" in Table I is an interesting commentary on the structure of Indonesia's payments. Indonesia characteristically does not have a "dollar shortage" in the sense of an adverse balance in her bilateral trade with the United States. She uses dollars earned in that trade to settle deficits with third countries and still maintains a substantial proportion of her monetary reserves in dollars. During 1954, the short-term rate in the London Money Market rose increasingly, relative to the rate in New York. Responding to this "price development", Indonesian monetary authorities obtained a revision in their arrangement with Singapore, whereby a portion of their conversion rights could be used to acquire "registered sterling", not US dollars, which were then lent short-term in London until needed by Indonesia to make payments.

Table I

Experience under the Singapore Agreement, 1950-1954

Year	Conversion Rights			Actual Conversions		
	Straits \$	US \$	Registered Sterling	Straits \$	US \$	Registered Sterling
1950	149,720,000	49,172,000		92,915,000 ⁶	30,463,900	
1951	291,698,000	95,710,000		326,448,000	107,110,400	
1952	110,926,000	36,459,400		75,436,000	24,743,000	
1953	60,777,000	20,025,700		92,074,000	30,305,100	
1954	55,007,000	8,299,600	3,500,422 ⁷	68,561,000	22,609,400	
	668,128,000	209,667,100	3,500,422	655,434,000	215,231,800	---

The second arrangement is the result of an effort by the Indonesian Government to obtain access to banking facilities not available in Indonesia for small-holder producers of export crops.⁸ An exporter of these "native" products can open a "barter" account with the Indonesian Trade Commissioner in Singapore or Penang. 70% of the proceeds of these transit exports are credited to an Indonesian account with a bank in Singapore or Penang, the Indonesian exporter receiving a check in rupiahs converted at the official rate of exchange. The remaining 30% is made available to the exporter in Straits dollars and may be

- (6) Including Straits \$17,177,000 (US \$5,564,700) conversion rights for 1948 and 1949.
- (7) Of these Conversion Rights an amount of Straits \$29,870,747 were actually converted by May 1955, into Registered £ Sterling 3,500,422.
- (8) And, it might be added, in an effort to come to terms with political reality. The barter arrangements under this agreement are limited to trade originating along the East and North East coast of Sumatra, areas in which the Central Government does not exercise completely effective control (see the discussion of smuggling below). Thus, this arrangement to allow barter trade with Singapore is a variation on the rule, "If you can't lick 'em, join 'em".

used to buy certain goods for his own use or for resale. The Indonesian Government has obtained the cooperation of the exchange authorities in Singapore for this program.

Import transit trade through Singapore to Indonesia has always been far less important than exports. In addition, because of her exchange difficulties and in pursuit of direct trade, Indonesia has in recent years placed increasingly severe limitations on imports coming through Singapore. Representations made to Indonesia by the Singapore authorities, in the hope of softening this curtailment of their trade, have to date proved inconclusive.⁹

In practice, however, Singapore does derive a large measure of "relief" from this curtailment through extensive smuggling with Indonesia--not, of course, officially condoned by the Singapore authorities. Several factors combine to produce this high propensity to smuggle, which has been a significant characteristic of Indonesia's post-war international trade. Traditional channels for Sumatran trade have always been principally with Singapore, and these have often been of an informal nature between individual traders on both sides, especially Chinese. Efforts to control or rechannel trade of this type would only be likely to convert it into smuggling. This becomes all the more likely when, as is the case in Indonesia today, a central government has failed to secure for itself effective control of all its territory. If the Government's writ is not readily accepted about matters in general, a business man is not likely to be concerned overmuch about export or import papers, the payment of customs duties, or the intricacies of exchange control. The maintenance of an exchange rate that grossly overvalues the rupiah increases the profitability of smuggling. With the present rate it is far more profitable, for example, for a private business man to "add the value" of remilling his Sumatran crude rubber in Singapore, rather than in Palembang. Finally, the system of Commonwealth preferences excludes several Indonesian products from such major markets as India, unless they are in fact first smuggled into Singapore so that they can be relabeled as "of Commonwealth origin". This is currently the case with copra. The Indian tariff is 5% ad valorem for Commonwealth copra, 15% for non-Commonwealth, and this is a hurdle that Indonesian copra cannot profitably jump.

C. United States. With the United States Indonesia has no general payments or trade agreements. The only formal agreement is that for tin, whereby the United States undertakes to purchase stipulated amounts (22,000 tons per year, or approximately 2/3 of Indonesia's production) at prices agreed upon in advance by the two parties.¹⁰ This tin is used with lower grade ore from Bolivia to feed the Texas City smelter. The United States further undertakes to use this tin for additions to strategic stockpiles, agreeing not to put any of it on New York market, thus not only purchasing a substantial amount of

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- (9) Indonesia and Singapore conducted trade negotiations in October of 1955. While the detailed results of these negotiations are not yet available, it seems that Indonesia has agreed to relax restrictions on trade with Singapore while the Government of Singapore on its side has, for the first time, agreed to cooperate with Indonesia in the prevention of smuggling.
- (10) The original term of the agreement was for three years. The price was fixed in advance for each of the first two years. In the negotiations on terms of sales for the third year the United States urged, and Indonesia reluctantly accepted, that sales should be at current market prices. This proved to be to Indonesia's advantage, as the market price rose above the level that would most likely have been settled upon if the price had been fixed in advance.

Indonesia's tin, but doing it in such a way as to protect any other sales Indonesia may make on the New York market from adverse price effects by "sterilizing" this portion of world ore supply.

D. Japan. Indonesia's economic relations with Japan have always been important, and in recent years have become increasingly important, especially as a source of imports for Indonesia. In June 1950, Indonesia concluded a payments agreement which soon broke down under the mounting pressure of Indonesian adverse balances. Negotiations initiated in November 1951, and finally concluded in August 1952, provided, in addition to arrangements for current trade and payments, a program for liquidation of this outstanding Indonesian debt.

The arrangements then established are so complicated and have been so little publicized that it is perhaps useful to describe them in some detail as a clinical example in bilateral economic arrangements.

By the time these negotiations took place, Indonesia had accumulated an adverse balance with Japan of \$64,087,312.81.¹¹ In addition, the trade agreement concluded during these mid-1952 negotiations scheduled an adverse balance of \$15,000,000 for the year commencing July 1, 1952 (scheduled Japanese exports \$55,000,000; imports \$40,000,000). The initial conditions of the new payments agreement were the past deficit and the new trade agreement. That agreement provided for a system of six accounts. Current trade is recorded in open accounts maintained by the respective central banks and settled on the thirtieth of June each year. If during the year Japan imported from Indonesia less than the \$40,000,000 scheduled in the trade agreement, the difference between \$40,000,000 and actual Japanese imports is deducted from the net balance in Japan's favor, and this difference is transferred to "Special Account No. 2". The balance in "Special Account No. 2" is to be offset by "additional" Japanese imports from Indonesia within three months after the annual settlement of the open account.¹² If Japan fails to make these additional imports, that portion of Indonesia's obligation is written off. From the revised net balance arrived at after the above deduction, an additional \$20,000,000 is deducted at the time of the annual settlement. This amount is, in the first instance, payable on demand in US dollars within forty-five days after the annual settlement. However, an amount not less than \$15,000,000 is to be settled in the form of multilateral transactions. In covering letters exchanged at the time of the agreement, the principle was established that it is Japan (the creditor) who is responsible for organizing these triangular trade transactions. The mechanics are as follows: Indonesia owes Japan money for past trade, and Indonesia possesses dollars over and above her requirements for direct trade with the United States. Instead of using these dollars to directly discharge her obligation to Japan, Japan arranges for the purchase of imports in a third country, payable in dollars. Indonesia makes the payment on behalf of Japan for these Japanese purchases, but charges to Japan a commission of not less than 8% for services rendered. If Japan does not materialize \$15,000,000 of such transactions, this portion of Indonesia's obligations are also cancelled. The transactions under this provision are recorded in the "Japan Special Trade Account", opened in the books of the Bank Indonesia in the name of Japan. The final net balance remaining in the open accounts after above two deductions is then transferred to "Special Account No. 1", which is to be settled in mutually acceptable currencies in annual installments on the last day of every six months, within two years after the date of the annual settlement.

(11) All monetary units in this description of Indonesia-Japanese payments arrangements are US dollars.

(12) What constitutes an "additional" import in the continuous flow of trade between the two countries posed an interesting definitional problem; it was decided that any imports from Indonesia in excess of \$10,000,000 within the three month period would be considered to be "additional".

The adverse balance accumulated from trade prior to the conclusion of the August 1952 agreement was to be retired in a three-fold program. \$54,000,000 was to be placed in an "Indonesia-Japan Special Account A", to be retired in four installments: \$10,000,000 on July 1, 1954; \$15,000,000 on July 1, 1955; \$15,000,000 on July 1, 1956; and \$14,000,000 on July 1, 1957. \$6,000,000 was placed in an "Indonesia-Japan Special Account B" for a purpose to be agreed upon after July 1957. The balance above \$60,000,000 was transferred to the new open accounts established by the agreement. Indonesia has, however, defaulted on the payments due on July 1, 1954, and July 1, 1955, and in addition has defaulted on the annual settlements of "Special Account No. 1". After the first defaults under this agreement Japan instituted fairly rigorous controls over exports to Indonesia, with the result that current Indonesian-Japanese trading has recently been more or less in balance.

Trade and payments relations with Japan continue to be confused by the unresolved reparations question¹³--it now seems beyond question that Indonesia has consciously cultivated a deficit as a "deposit" against an ultimate reparations settlement. That this has been a well-advised tactic is open to question. It has changed the tonality of the reparations discussion from one concerning a wronged Indonesia justly claiming fair compensation to one of what to do about Indonesia's failure to meet her legitimate current commercial obligations.

E. East Europe. With the state trading countries of Eastern Europe--Czechoslovakia, Poland, Hungary, Rumania, and Yugoslavia--Indonesia has concluded bilateral payments agreements usually providing for offsetting accounts in the two central banks, settlement in sterling,¹⁴ and a "swing" margin. In addition, the Bank Indonesia has an inter-bank arrangement for clearing with the Deutsche Notenbank of the East Zone. Indonesia has, until now, shied away from entering into formal intergovernmental commercial relations with the East German Government, because of possible complications this might cause in the extremely satisfactory and growing trade relations with West Germany. Recently a trade delegation from East Germany arrived in Indonesia uninvited and were referred by the Ministry of Economic Affairs to the--private--Indonesian Chamber of Commerce, the Ministry declining to deal with them officially.

In addition to her trade and payments arrangements with the Netherlands, Singapore, the United States, Japan, and the East European countries, Indonesia has concluded a series of more than twenty trade agreements with other countries. These agreements, in general, follow a fairly fixed format. The agreement proper usually consists of between five and seven articles stating:

1. The general desire of the two countries to promote trade, especially in those goods listed in appended lists of specified export products of the two countries;
2. That trade is subject to the general export regulations in force in the two countries;

(13) Indonesia has still not ratified the peace treaty with Japan because of this question.

(14) Because of limitations placed by British authorities upon transfers of sterling on account of transactions with Hungary, the currency of account with that country was the Dutch guilder, the currency of settlement Swiss francs. With Yugoslavia settlement was in US dollars.

3. That each country will receive most favored nation treatment;¹⁵
4. That further consultations shall be held when necessary, and, in some cases, standing committees of consultation shall be established;
5. The effective dates of the agreements and method of extension;
6. That when applicable, the usual bunkering and harbor facilities will be made available to the shipping of both countries, but that in no case will the two countries be allowed to participate in the coastal shipping of the other country.¹⁶

In addition, several of the agreements contain an article stating that both countries subscribe to the principle of multilateralism, and other miscellaneous articles.¹⁷

A protocol attached to each of the agreements sets forth the operative details and contains the schedules of commodities to be exported by the two countries. A "quota" is set for many, but not all, of the scheduled commodities. Most of the quotas are in terms of volume, occasionally in value terms. These quotas are in the nature of targets (or perhaps ceilings) and not firm trade programs, let alone purchase commitments.

II

In developing a system of trade and payments arrangements, a country, especially one anxious to husband its resources for economic development, has two distinguishable objectives. One is to increase the total availability of foreign exchange resources, and the second is to remove any blocks to the most efficient use of these resources that arise because of the inconvertibility of one or more of the currencies being earned¹⁸--trade promotion on the one hand, and increased multilateralism on the other.

- (15) One recent measure to conserve Indonesia's foreign exchange must surely run afoul of this clause in the agreements. In order to economize on the stockpiling of spare parts (all purchased with foreign exchange), the Ministry of Communications has announced that henceforth it will be possible to import only certain makes of automobiles and motorcycles--the list of permissible brands released by the Ministry represents a severe reduction in the variety of cars and, necessarily, of the countries producing them.
- (16) This restriction is necessary because of arrangements entered into by Indonesia in the General Shipping Agreement with the Netherlands.
- (17) The agreement with China contains both an article stating that both parties subscribe to bilateralism and another article stating that both parties subscribe to multilateralism.
- (18) There are, properly speaking, two questions of convertibility; the convertibility of the country's own currency and the convertibility of the currencies earned. The rupiah is completely inconvertible. There can be no doubt but that this has a significant (but immeasurable) adverse effect upon the volume of Indonesian trade. If Japan could dispose of her rupiah assets or claims in trade with some third market there would be some broadening of Indonesian trade and Japanese-Indonesian trade would not be up the blind alley it is at present. But about this inconvertibility there is nothing Indonesia can do in the short-run. The

Taking the two objectives in reverse order, Indonesia is in a relatively favorable position with respect to convertibility of currencies earned. She has an active balance in US dollars, and in the EPU currencies, taken as a group. With dollars there is no problem of convertibility. Indonesia's dollar position has been further improved by her success in obtaining dollars for dollar transit trade through Singapore, and for tin shipped via Holland. Throughout the entire postwar period, sterling earned by Indonesia has been transferable account sterling. Any "softness" of the European currencies has been largely eliminated by the Associate Membership in the EPU and the willingness of the Netherlands to buy and sell foreign currencies to and from Indonesia against guilders at the prevailing middle rate. The bilateral payments agreements with the East European countries have been quantitatively insignificant. In a recent study of the problem of convertibility for ECAFE countries, Indonesia shows up as the "most convertible" (in the sense of currencies earned) ECAFE country--71% of her trade in 1953 being multilaterally compensated.¹⁹

In the trade agreements proper, as distinct from the payments agreements, the major objective has been to increase the volume and value of Indonesian trade. A successfully negotiated trade agreement may lead to an increase in the volume and value of a country's trade in several ways. It may gain a commercial advantage for the country in the sense of facilitating the sale of particular commodities the country is anxious to export or the purchase of commodities a country wants to import. Starting with a system of controls and quotas as the basis from which to negotiate, it can increase the "demand" for those of its export commodities it is having trouble moving by tying their sale to the sale of its commodities for which the demand is strong, or it can obtain desired imports which are in short supply abroad by offering its relatively scarce commodities in return. Explicit efforts to maximize commercial advantage in this way are usually found when the system of controls provides for licensing of all imports and exports, commitments as to issuance of licenses being the point to be negotiated. Similarly, by manipulating its offers of its relatively strong products, and country can attempt to obtain its imports at lower costs, in terms of its exports, than would otherwise be possible. That is to say, the trade agreement can be a framework within which to establish more favorable terms of trade.

Finally, most agreements contain a provision for periodic settlement of accounts, and these often include a "swing margin of net credits". Success in both the negotiation and subsequent exploitation of these swing margins can prove to be a useful source of foreign credits. In evaluating Indonesia's efforts to increase her foreign trade through a system of trade agreements, it is useful also to distinguish between the interim use of tripartite agreements, inherited from the pre-sovereignty period, which were still the characteristic form of agreement in 1950, and the subsequent use of straightforward bilateral agreements. The tripartite agreements were in force when sovereignty was acquired, and in the first few months after transfer the demands upon the available Indonesian administrative resources were such that the country was well advised to continue any existing arrangements not actually intolerable. These agreements had their origin in the late forties, before an international economic system had been rebuilt, and, in general, bilateral trade agreements were

rupiah will become convertible when economic development has carried Indonesian productivity to the point where she is producing a flow of goods and services for which there is sufficient demand by a sufficient number of countries.

(19) "Scope for Multilateral Compensation Payments of ECAFE Countries", Economic Bulletin for Asia and the Far East, Vol. V, No. 1 (May 1954), Table 2, p. 10.

the order of the day. The Java Bank Report, 1949-1950 (at that time still reflecting the Dutch point of view) cited three advantages Indonesia derived from the tripartite agreements:

1. They strengthened Indonesia's bargaining position vis-a-vis the third country, because the Netherlands and Indonesia together could offer a wider range of goods, complementary to each other, to induce the concessions they wanted; and because competition between Indonesia and the Netherlands would be eliminated in the markets of the third country (this is relevant to Dutch re-exports of Indonesian products which might undercut direct Indonesian offers).
2. Indonesia could continue to avail herself of Dutch commercial expertise and experience in transit trade (an expertise of which the Indonesians had strong psychological and political--and economic--motivations not to avail themselves).
3. Indonesia and the Netherlands did not separately have to achieve balance in their trade with the third country, which made for a slight increase in multilateralism.

In the period in which they originated, these agreements were undoubtedly mutually beneficial to both countries and probably tended towards increased international trade, but it is also true that the advantage lay more with the Netherlands, whose weak exports of consumers' goods were being combined with Indonesia's strong exports of industrial raw materials. In any event, the arrangement was rendered obsolete by the transfer of sovereignty, on the one hand, and the establishment of the EPU, on the other, Indonesia participating in the benefits of the latter under the terms of the former.

How successful have been Indonesia's efforts to obtain, through her trade and payments agreements, the objectives mentioned above: to expand Indonesian exports, to obtain the best terms for these exports, to obtain the imports desired with the proceeds of the exports, and to secure credits abroad? On some occasions the trade missions seem to have devoted as much time to exploring possible new markets for Indonesian exports and possible new sources of imports as to the specific terms of negotiated agreements. The Indonesian negotiators have attempted to use their strong export items, when they had them, to bargain for desired imports. In pursuing these objectives, however, it is not clear that the Indonesian negotiators have always been successful in seeking out the best market in which to sell her products and the least expensive market in which to buy her imports. Nor does a proper concern with the import needs of the development plans seem to have been evidenced in drawing up the quotas of goods Indonesia will be willing to receive. However, vagueness on this score is more properly attributable not to the agreement negotiators, but to the planners. Indonesia has not formulated in concrete terms its plans, or even its attitudes, toward development. Only now, late 1955, is the National Planning Bureau completing a plan, which in itself represents little more than an effort to coordinate the previously ad hoc and diverse efforts of the different executive departments of the government. While it is true that Indonesian negotiators have on occasion explicitly stated principles and objectives of negotiation which indicate an understanding of what is involved in the maximizing of commercial advantage, one nevertheless gets the impression that the conclusion of an agreement--any agreement--is considered a virtuous end in itself. The situation is further confused by the failure, to date, to clearly define the role and authority of the various government agencies concerned. Basic responsibility rests with the Ministry of Economic Affairs, but the Bank Indonesia, the Finance Ministry, and the economic people within the Ministry of Foreign Affairs all play a role in the negotiations and furnish members of the missions. Even within the Ministry of Economic Affairs, cooperation and

coordination between the unit negotiating the agreement and those issuing export and import licenses has been slight.

However, possible adverse effects of poorly designed trade agreements have, in practice, probably been unimportant, as the agreements themselves have been more in the nature of loose statements of intention, and actual trade with many of the countries bears little relationship with the quotas set forth in the agreements. The main pragmatic effect of the agreements is that Indonesia, with both quantitative and qualitative controls over her foreign trade, undertakes to commit herself--but how firmly is not clear--to issue import licenses and make foreign exchange available, "up to" the amounts specified in the quota for the other country's export commodity. The nature of the commitment when there is no quota specified is very unclear. Furthermore, Indonesia has had little scope for improving her terms of trade through bilateral bargaining. Most of her exports are homogeneous primary commodities traded on world markets, the prices of which Indonesia does not significantly influence. This is certainly true of tin and rubber. Petroleum is excluded from both the trade and payments agreements because of the foreign exchange arrangements between the Government and the oil companies. Indonesia's bargaining position with respect to copra is greatly weakened by the preferential tariff treatment granted by the United States to Philippine copra, and by the Imperial Preference advantage granted Malayan copra by the United Kingdom and India. And tin, rubber, petroleum, and copra are the big four of Indonesia's exports.

One of the major motivations in the trade agreements program has been to multiply and diversify Indonesia's commercial contacts. As a newly independent state Indonesia has been sensitive about the degree to which her trade in the past has been handled on an entrepot basis by the former mother country and by Singapore, a second symbol of the former colonial status of Southeast Asia. The pure economics of eliminating the entrepot middleman is somewhat unclear. To the extent that he merely adds a middleman's profit, it would appear that his elimination implies higher net prices for Indonesian exports and lower delivered prices for Indonesian imports. If, however, the entrepot mark-up represents payments for real services rendered, it then becomes a question of weighting the price advantage against the cost of furnishing comparable services. The entrepot trade is high risk and requires heavy working capital commitments in inventories. In imports, for example, this means that a Djakarta firm pays a higher price for an article from a Singapore supplier than if bought direct from the manufacturer in England or Germany. However, purchasing direct requires purchasing expertise within the Djakarta firm which might not exist. In addition, delivery is slower than from Singapore, requiring larger working capital committed to goods in transit, and working capital is scarce in Djakarta.

Perhaps more important, there has been a political motivation in the drive for diversification of trading partners. Indonesia has felt it inappropriate for a nation pursuing "an actively independent" foreign policy to have all of its commercial contacts with one "bloc". This desire to have some kind of "agreements" with countries from all blocs is most apparent in the agreement with China. This is the vaguest of the agreements, with not even the usual schedule of commodities appended--these were added several months later. As a result of this combination of economic and political motives, most of the agreements have been with countries whose significance in Indonesia's trade has been slight, but this is as it should be when diversification is the object.

Whether attributable to her trade agreements or not, there has been a noticeable diversification of Indonesia's trade. As indicated in Table II, the share of the four leading trade partners in Indonesian trade has declined.

Table II²⁰Indonesian Foreign Trade

<u>Year</u>		<u>Indonesian Exports</u>	<u>Indonesian Imports</u>
1949	Netherlands	519,673	361,287
	U. S. A.	234,393	441,981
	Japan	33,534	112,228
	Singapore	359,166	34,833
	Total 4 Countries	1,146,766	950,329
	Total All Countries	1,503,000	1,699,000
	% 4 of Total	76.3%	55.9%
1954	Netherlands	1,882,491	750,335
	U. S. A.	1,635,634	1,034,873
	Japan	571,132	1,559,027
	Singapore	2,498,803	68,537
	Total 4 Countries	6,589,060	3,412,772
	Total All Countries	9,759,000	7,172,000
	% 4 of Total	67.5%	47.5%

Comparing 1954 with 1949, their share in exports has decreased from 76.3% to 67.5%, and the share in imports declined from 55.9% to 47.5%. On the other hand, the share of West Germany, a country whose trade with Indonesia has undoubtedly been influenced by the trade agreement between the countries and by subsequent efforts to increase commercial contacts, has increased steadily since 1949.

Table III²¹Trade with Germany

<u>Year</u>	<u>Exports to Germany</u>	<u>Imports from Germany</u>	<u>Total Exports</u>	<u>Total Imports</u>	<u>% Exports</u>	<u>% Imports</u>
1949	32,581	28,515	1,503,000	1,699,000	2.2	1.8
1950	86,080	48,558	3,038,000	1,673,000	2.8	2.9
1951	148,970	183,388	4,908,000	3,318,000	3.0	5.5
1952	386,756	709,952	10,652,000	10,806,000	3.6	6.6
1953	445,534	568,690	9,343,000	8,584,000	4.8	6.6
1954	451,236	490,982	9,759,000	7,172,000	4.6	6.8

(20) Central Bureau of Statistics, Statistical Abstracts, March 1955, pp. 21-23.

(21) Ibid., pp. 21-23. A word of caution is necessary about these statistics, which illustrate the pitfalls involved in the use of customs figures in analyzing the structure of international trade. The German statistics

A trade promotion program is an investment with a long period of gestation, so final judgments must of necessity await the future development of Indonesian trade.

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indicate the following figures for trade with Indonesia, recorded in Deutschmarks in millions (1 DM = Rp. 2.72):

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
Exports to Germany	279	292	323	354
Imports to Germany	<u>190</u>	<u>200</u>	<u>184</u>	<u>173</u>
Indonesian				
Export Surplus	89	92	139	171

Note that the Indonesian figures indicate an import surplus for Indonesia, while the German figures indicate an export surplus for Indonesia. Discussions with the foreign trade statistician in the Indonesian Central Bureau of Statistics suggest the following explanation for this discrepancy: it is almost always possible to ascertain with a high degree of certainty the country of origin of an import, through trade marks, shipping labels on the crates, etc. On the other hand, it is very difficult to be sure in what country a product being exported will finally end up. A good deal of Indonesian trade with Germany is trans-shipped through such non-German ports as Rotterdam. Thus the Indonesian statistics probably record some exports to Germany as exports to Netherlands, while the German statistics perhaps record some exports to Indonesia also as exports to the Netherlands. Perhaps the most accurate picture would be to use the import statistics from the two countries' figures. Be that as it may, both sets of figures substantiate the point made in the text: that trade with Germany is becoming relatively more important to Indonesia.

A REVIEW OF APPROACHES TO ECONOMIC DEVELOPMENT*

Containing almost 150,000 words, 53 tables and figures, reference to over 80 countries and to articles and books by some 250 individuals,¹ this volume will prove useful to both students and administrators concerned with problems of "underdeveloped areas". While some would prefer to have the analytic skeleton more firmly and boldly marked out, there can be no question that Professors Buchanan and Ellis have read and digested a remarkably large proportion of the scattered, fragmentary, and often amorphous literature on development.

In the main, this book may aptly be described as a long, statesmanlike, and readable "encyclopedia article" on the subject of "the development of underdeveloped areas". In performing this task, the authors appear to have had the administrator and government official in mind. Such persons might be expected to skim those parts of the book which would not be of immediate interest (so the book repeats important material in different contexts); have scant use for extensive displays of theoretical virtuosity or formalized reasoning (so the theory is slipped into the text unobtrusively and, in many cases, left implicit); desire rules of thumb as guides for action (so the authors offer many wise and eclectic suggestions for reform and program planning); and need assistance in locating sources of data and more detailed literature (so excellent documentation and indices are provided).²

As for the contents of the book, Part I, for which Professor Buchanan is primarily responsible, provides a checklist of the more important determinants of per capita real income with discussion of the disadvantages of this and other possible measures of development. The complex manner in which the various determinants of per capita income, in mutual interaction, may produce a rising level of material well being is then described. The analytical framework employed for this purpose starts with the stock of capital (subdivided into natural resources, human resources, and "man-made" capital goods); adds to this the limitations on capital use imposed by technology, the preferences of resource owners, entrepreneurs, and administrators, and the socio-cultural and institutional framework within which technology and preferences operate. From this beginning, the authors then show how changes in the various components of capital or variations in the limiting factors permit (and in some cases insure) changes in per capita income. In this connection, separate chapters are devoted to the accumulation and allocation of man-made capital goods, to social and cultural factors, and to matters of population change.

* Norman S. Buchanan and Howard S. Ellis, Approaches to Economic Development, The Twentieth Century Fund, New York, 1955, pp. xvi + 494. \$5.00.

- (1) The authors who are mentioned in the book more than five times each are: G. C. Allen, Alexander Baykov, M. K. Bennett, J. H. Clapham, Alexander Gerschenkron, Maurice Dobb, Kingsley Davis, Sanford Mosk, W. Arthur Lewis, Simon Kuznets, R. R. Kuczynski, H. W. Singer, J. J. Spengler, H. C. Wallich, A. P. Usher.
- (2) It should be mentioned, however, that the book was written between 1951 and 1953, so that more recent material could not be included.

The second major section of the book, for which Professor Buchanan also prepared the first draft, contains informative and well-written histories of industrial development in England, Western Europe (concentrating on France and Germany), Japan, and the U.S.S.R. In this reviewer's estimation, the reports on England and the U.S.S.R. provide particularly useful and, considering their brevity, quite sophisticated summaries of complex and difficult historical patterns.

The remaining 49 per cent of the text (Part III), most of which was initially drafted by Professor Ellis, contains chapters on agriculture, industry and commerce, and international trade, with respect to their effect on economic growth and the effect of economic growth on them. In this section there is also a group of four chapters on the financing of development: from domestic and foreign, private and public sources, respectively. The book then concludes with two summary chapters—one on the general pattern of development by Professor Buchanan and one on the role appropriate for the U. S. to take in the development of other parts of the world by Professor Ellis. Unfortunately the dual authorship of the book prevented full utilization in Part III of the analytical structure set forth in Part I and resulted in a book somewhat longer and less well organized than necessary. With the exception of finding a basic discussion of investment criteria (on pp. 390-394) in the midst of a chapter on international trade, however, this criticism is not significant.

Insofar as one is critical of the book, it is the field of economic development rather than the authors which is at fault. Economics has traditionally been concerned with the construction of models which, by definition and assumption, permit prediction of the consequences of certain exogenous events on certain endogenous variables, e. g., the effect of a change in tax rates or money supply on the level of income. Closely connected with this interest in prediction (or explanation), economics has developed computational techniques for simplifying problems of choosing among possible courses of action in the light of stated objectives, e. g., the rule of marginal cost equal marginal revenue, given a conventional firm with a desire to maximize profit. The set of models and devices with which the economist is typically equipped, however, is not well designed to handle many of the problems raised by the observer and administrator of a development sequence. The "most efficient" manner by which to encourage innovation and entrepreneurship, remove social and political barriers to factor mobility, or create new preferences in place of old, are problems which are not easily defined or isolated for examination and analysis.

Confronted with such difficulties, the economist appears broadly to face a choice between (a) attempting to build an overarching, sociological model in which the endogenous variables are various aspects of organizational structures and preference systems and then welding this to one or another of the more limited economic models with which he usually works, or (b) reconciling himself at the outset to the more "technical" job of short period forecasting, in which case his task is to select the appropriate economic model (and parameter values) on the basis of grossly inadequate information and then to design measures which will stabilize certain crucial variables at levels appropriate to specified (governmental) objectives.

Those who advocate the first of these alternatives tend to think in terms of an integrated social science, in terms of broad sweeps of history, and are not particularly concerned with predictions respecting, say, changes in tax receipts or the price level during the next six months. Theirs is the perspective of 10, 25, or even 50 years. Those who lean toward the second point of view are more

pessimistic about our chances of constructing meaningful socio-economic models in the immediate future and so prefer to limit their predictions to a period during which sociological and technological aspects of the environment and "tastes" may reasonably be assumed constant. An insistence on rigor and precision in theory construction, even if this forces a severe narrowing of the role which the theory is designed to play, in part rationalizes a desire to display hard-earned skill in the handling of the tools of economic analysis. Of more importance, however, is the fact that an insistence on careful definition, scrupulously stated assumption, and well reasoned theorem has apparently been rewarded by a considerable measure of success in the past. To offer explanation without facing the problem of prediction is often meaningless.

A moment's reflection indicates that these two approaches are not only not incompatible but are instead complementary. Unfortunately, much current work in the field of economic and social change fails to give more than lip service to this essential complementarity. While explicable in terms of the different universes of discourse and frames of reference with which specialists from different disciplines face the common subject of development, this does not make prognosis for final integration particularly favorable. In the present instance, there is danger that another sterile hybrid will be produced instead of a fruitful, integrated body of analysis.

What then is required? Let us recognize that (a) economists working in the development area will continue to think in terms of theorems derived from ideal type constructions, (b) rigorous theorizing designed to encompass all of society is clearly premature, (c) the cross-disciplinary nature of the subject will not disappear, i. e., there will not soon be separate departments and degrees in "economic and cultural growth", (d) questions of practical policy-making will continue to lurk in the background of most work for some time. In view of these limitations, what direction for economic research will exploit the advantages of the cross-disciplinary setting? The models economists use for policy purposes rest on certain institutional and behavioral constants, presuppose some political control over certain variables, and take as given a (partial) ordering of social states which is also political in nature. It is therefore more important than in non-cross-disciplinary work to present in explicit and detailed fashion the socio-psychological and political assumptions which underlie predictions or policy conclusions rather than rely on a portmanteau "institutional factors and tastes assumed to be constant." (Indeed, I would argue that stating assumptions would be more important than efforts designed to spell out the model itself.) People from other social sciences could then examine these assumptions empirically with respect to the likelihood of their individual and mutual existence. Formulations with this emphasis would also earmark for those in other disciplines those variables (parameters for the economist) whose values and changes in whose values need explanation. If anything, this should lead to work incorporating new and presumably more realistic assumptions, as well as lay the foundation for constructing a more unified social science.

In terms of this viewpoint and these hunches, how does Approaches to Economic Development shape up? As an illustrative indicator, consider the authors' judgment that "all the indications are for a strong upward secular trend in the demand for foods and industrial raw materials which would tend to raise incomes in the producing [and underdeveloped] countries" (p. 47); or their inability to choose between the "large dose" and the "gradual trickle" of investment as initiator of stable growth (pp. 70-73); or their statement that "disproportion among the factors available for production precludes a rise in agricultural output; but because agricultural output is much the most important segment of the economy,

this means that total output is virtually inelastic in the short run" (pp. 53-54); or their insistence that "the use of foreign capital for consumption or for low productivity purposes requires outright grants or low-interest loans" (p. 394); or their suggestion that "since the existing endowments of underdeveloped countries are chiefly in resources for primary production, including manpower adapted to this end, it follows that agriculture and other primary pursuits should be the objects of the first transfers of improved techniques" (p. 419). In each case, neither the logic employed nor the assumptions required are presented to the reader. Thus the conclusions cannot be evaluated except by building models which may or may not be similar to that used by the authors. In the cases mentioned, the absence of explicitly stated assumptions is particularly troublesome, since the conclusions are not obvious.

Nonetheless, as previously mentioned, this is a most useful and readable book, well adapted to classroom use.

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COLLATION OF VAN DER KROEF FOOTNOTES
WITH PRESENT VERSION OF HIGGINS' ARTICLE

<u>van der Kroef footnote number</u>	<u>Location of text in THE "DUALISTIC THEORY" OF UNDERDEVELOPED AREAS</u>
(17)	p. 104, lines 19-25.
(22)	pp. 106 (bottom) - 107 (middle).
(24)	p. 104, lines 10-17.
(26)	p. 105, lines 18-39.

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